

Austria	\$10.44	Indonesia	Pt 40.88	Philippines	Pes 40
Bahrain	\$10.70	Iraq	Rsd 1.00	Portugal	Esc 1.00
Belgium	Efr 1.00	Israel	Shl 1.00	Qatar	Qr 1.00
Cyprus	Cd 1.00	Italy	Ls 1.00	Singapore	S\$1.10
Denmark	Dkr 1.00	Jordan	Dr 1.00	Slovenia	Stot 1.00
Egypt	Es 1.00	Kuwait	Yd 1.00	Sudan	SD 1.00
Finland	Frs 1.00	Liberia	Lsl 1.00	Tunisia	Td 1.00
France	Frf 1.00	Lux	Lfr 1.00	Ukraine	Ukr 1.00
Germany	DM 1.00	Malaysia	Rm 1.00	Thailand	Thb 1.00
Hong Kong	Hkd 1.00	Morocco	Dir 1.00	Turkey	Ltr 1.00
Iceland	Ikr 1.00	Niger	Nfr 1.00	UAE	Dir 1.00
India	Rs 1.00	Iran	Rls 1.00	Yemen	Yr 1.00

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES


**AIRCRAFT**  
 Clouds close in on Boeing

Page 14

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## World News

## Business Summary

**Asean moves closer to isolating Khmer Rouge**

The international campaign to isolate the Khmer Rouge in Cambodia was boosted when the Association of South-east Asian Nations condemned the faction for past atrocities and said it must not be allowed to regain power by force.

This is the first time the Asean countries have attacked the Khmer Rouge by name.

Page 18

**Mongol opposition**

A democratic group seeking to end Mongolia's 65-year-old communist system proclaimed itself the nation's first opposition party. Page 3

**Norway favours EC**

Norwegian opinion has swung sharply in favour of membership of the EC, according to a poll published in the newspaper, *Dagbladet*. Page 2

**Tyre fears recede**

Fears were receding that a huge pile of burning tyres would create an environmental disaster for a rural area of southern Ontario, Canada.

Page 2

**Soviet discontent**

A rally of 50,000 protesters in Dushanbe, capital of Tadzhikistan, called for sweeping political reforms in the Soviet republic amid signs that heightened political discontent was spreading through Soviet central Asia. Page 2

**Castro conforms**

President Fidel Castro set out to streamline the main structures of Cuba's Communist Party to cope with the island's deteriorating economy and challenges presented by rapid change in both the Soviet Union and Comecon, the Soviet-dominated trading bloc.

Page 5

**UK offers carrot**

Britain held out the prospect of resumed aid to Vietnam as a carrot to try to persuade Hanoi to accept forcible return of more boat people from over-crowded camps in Hong Kong. Page 3

**Airbus grounded**

India will ground its 14 remaining A320 Airbus airliners from today because of public fears about their safety, the Civil Aviation Minister said.

**Hong Kong protest**

Hundreds of Hong Kong residents staged a protest rally against compromises between Peking and London on the colony's political future when China takes control from 1997.

**Reagan taped**

Former US President Ronald Reagan completed two days of video-taped court evidence on how much he knew about his national security adviser's role in the Iran-Contra scandal.

**Sharon to fight**

Ariel Sharon, who formally submitted his resignation as Israeli trade minister, said he would run for leadership of the right-wing Likud before the next general election, due by the end of 1992. Page 4

**Clashes in Taiwan**

Taiwan opposition protesters clashed with police in the northern port of Keelung in the first violence of the island's presidential election campaign.

**A call to arms**

The Popular Front for the Liberation of Palestine called on Palestinians to take up arms against Israel within the occupied territories and across the borders of the Jewish state.

**Nepalese riot**

Thousands of Nepalese students and political activists defied police batons and tear-gas to take over central Kathmandu in the first anti-government demonstration for 11 years.

**Fatal jailbreak**

A prisoner fell to his death and another was seriously injured when gunmen who hijacked a helicopter tried to pluck them off the roof of Fresnes maximum security jail south of Paris.

**Crash kills 19**

A truck loaded with wheat crashed head-on into an inter-city bus in northern Chile, killing 19 people and injuring 31 others.

**Unclaimed jet**

Taiwan customs officers are baffled by an unclaimed piece of unclaimed baggage: a Chinese-built replica of a Soviet MiG-19 jet fighter discovered in a shipment from Japan.

## Foreign troops must stay in Germany says Thatcher



Prime Minister Margaret Thatcher acknowledges the applause of Britain's leading Jews after her speech yesterday

MRS MARGARET Thatcher yesterday underlined her concern at the potential threat to Western Europe posed by unification of the two Germanys by insisting that Nato troops must remain indefinitely on German soil while Philip Stevens, Political Editor.

In a speech to the Board of Deputies of British Jews, the British Prime Minister also suggested that, for an interim period at least, the Government of a united Germany should accept a Soviet presence in what is now East Germany.

More broadly, she said that the collapse of communism in Eastern Europe would offer

Britain the opportunity to make some reductions in its defence forces.

She emphasised, however, that such cutbacks could be made only in the context of balanced reductions by both Nato and the Warsaw Pact and that the Government would do nothing which put Britain's security at risk.

Mrs Thatcher was careful to stress that Britain had always backed German unification if it was the result of the "freely-expressed" will of the people of both states. She also praised Chancellor Helmut Kohl's commitment to Nato.

The Prime Minister added, however, that unification

should not make others in Western and Eastern Europe and in the Soviet Union feel less secure.

"That means that we want to see Germany remain part of Nato, with America and other troops stationed there, with some special arrangements for East Germany, to meet the Soviet Union's security concerns. Indeed it would be quite reasonable for the Soviet troops to remain there at least for an transitional period."

In parallel, she added, Britain understood and fully supported Poland's wish to see its western border guaranteed by treaty.

The tone of Mrs Thatcher's

remarks - and the choice of audience - appeared to confirm her deep anxiety about the speed of recent events in Europe, and her determination to ensure that the rights of the four powers in Germany were respected.

Underlining the need to preserve existing treaties and boundaries she added: "It is on the basis of four-power rights and responsibilities that our allies have preserved West Berlin's freedom for over 40 years."

Mrs Thatcher's stance has led to a significant rift with Bonn, and to divisions in

Continued on Page 18

## Japanese give LDP decisive victory in big poll turn-out

By Ian Rodger in Tokyo

THE LIBERAL Democratic Party, which has ruled Japan since 1955, overcame widespread public dissatisfaction with its policies and its corrupt ways to score a decisive victory in yesterday's general election.

By the time the final votes were counted early this morning, the LDP was expected to win more than 270 of the 512 seats in the lower house of the Diet (parliament), giving it overall control. An unusually high turn-out, 73.2 per cent, identified 10 million voters in an election which the LDP said was about a choice between freedom and socialism.

LDP leaders' delight with the result was tempered by the expectation that it would face obstacles in gaining approval for its legislation for the next few years - the party lost control of the upper house of the Diet in last July's elections. Also, party leaders know that the US and other foreign gov-

ernments will feel freer to pursue demands for Japan to open its markets wider to imports now that the political situation has become more stable.

Mr Ichiro Ozawa, the LDP's secretary-general and chief strategist for the election, predicted last night that the 1990s would be "a harsh period for Japan in the international community." Already this week, two US delegations are visiting Tokyo to discuss on structural trade barriers and security issues.

Yesterday's win confirms a remarkable recovery for the LDP after last July's upper house elections when voters deserted the party in droves because it had introduced a 3 per cent consumption tax and opened agricultural markets, and because some of its leaders had become entangled in bribery and sex scandals.

All the leading LDP politicians implicated in the Recruit bribe scandal last year, including Mr Yasuhiro Nakasone and Noboru Takeshita and other former cabinet members, who had been implicated in the Recruit scandal.

The politicians let it be known that they considered the election to be like the Shinto purification rite, misogi. If they won, then the tainted would be considered washed away and they could return to office or, in the case of Mr Nakasone, return to the party.

Of the 20 who ran, 11 won, including Mr Nakasone. Mr Nakasone suffered a significant slump in

his vote from 115,000 to 25,000 but Mr Takeshita suffered no loss at all. On the other hand, Mr Takeshi Fujinami, who is on trial for taking bribes from Recruit, scraped home only because two socialist candidates split the vote.

Voters were more severe in their treatment of Mr Sadao Takemoto, former Foreign Minister, who was also defeated, will be less lenient. He achieved notoriety last July when anti-LDP sentiment was running high among women by suggesting that women were useless in politics and should stay at home. He added that Miss Takeaki, the socialist leader, was unfit to be Prime Minister because she was single and childless.

Among opposition groups, last summer's trends continued, with the Japan Socialist Party (JSP), the largest opposition party, making substantial advances and marginal opposition parties being squeezed.

With 81 seats still to be decided late last night, the JSP had won 114 - 29 more than it took in the 1986 election. The Japan Communist Party, which has been hurt by association with European communist regimes, had only 13 seats, half as many as it won in 1986, late last night.

The light is not expected to remain green for more than a few months. Mr Shunro Abe, the former Foreign Minister who is among those "purified" of Recruit implications and who has wide support in the party, is manoeuvring vigorously to replace him.

No easy answers, Page 4; Editorial comments, Page 16; Winning fees, Page 17

## The inconsistent taint of Recruit

VOTERS cast out their judgments in curious ways, writes Ian Rodger in Tokyo. In Japan's general election yesterday, they forgave and re-elected more than half of the politicians involved in the Recruit bribery scandal last year, but threw out the man who drafted the hated 3 per cent consumption tax and another who said last summer that women were useless in politics.

One of the main points of interest was what would happen to the score of politicians, including former Prime Minis-

ters Yasuhiro Nakasone and Noboru Takeshita and other former cabinet members, who had been implicated in the Recruit scandal.

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No easy answers, Page 4; Editorial comments, Page 16; Winning fees, Page 17

## Bank of England steps in to settle Channel tunnel row

By Andrew Taylor, Construction Correspondent, in London

THE bitter row between Eurotunnel, the troubled Anglo-French consortium building the English Channel tunnel, and its contractors over Mr Alastair Morton's abrasive leadership of the project is close to being resolved following intervention by the Bank of England.

Eurotunnel is understood to have agreed to strengthen further its project management team by appointing a new senior executive who would be expected to act as a buffer between Mr Morton and the contractors. This post would be in addition to the appointment of two new senior managers, announced last week.

A meeting chaired by Mr Robin Leigh-Pemberton, Governor of the Bank of England, took place between Eurotunnel and its British contractors at the Bank's headquarters in London on Friday.

The British contractors appear to have been satisfied that Mr Morton would be distanced from the day-to-day

management of the construction contract following his appointment last week as Eurotunnel's chief executive, which would leave him in overall charge of the project. Mr Morton, currently co-chairman of Eurotunnel, now becomes deputy chairman of the group.

The five British and five French construction companies contracted to design and build the project have opposed the appointment of Mr Morton as Eurotunnel's chief executive. Mr Morton has strongly criticised them for delays and the increased cost of the project which has risen to \$7.2bn compared with an original forecast of \$4.5bn.

The contractors have so far refused to sign an amended construction agreement which would allow Eurotunnel to start drawing down \$400m of temporary finance awarded last month.

To complicate matters, Eurotunnel on Friday was ordered by the French courts to pay the contractors \$83m in unpaid

fees. Eurotunnel says it cannot comply until the contractors sign the agreement and its funds are unfrozen.

The contractors are expected to drop their legal action provided the French construction companies accept the new management structure. French companies, which were not present at the Bank of England meeting, have had disagreements with Mr Morton but are less antagonistic towards him than the British contractors.

The relationship between Mr Morton and Sir Clifford Cheshire, chairman and chief executive of Wimpey, one of Britain's biggest construction companies, has been particularly stormy. A joint statement by Eurotunnel and the contractors announcing the new management structure and the signing of the construction agreement could be made today provided the all parties agree and the necessary legal requirements can be met.

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The thorniest problem facing David Calcutt, chairman of the UK's takeover panel, is drawing up a common European takeover code
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## OVERSEAS NEWS

**Castro concedes need for shake-up**

By Robert Graham, recently in Havana

PRESIDENT Fidel Castro has set out to streamline all the main structures of Cuba's Communist Party to cope with the island's deteriorating economy and challenges presented by rapid change in both the Soviet Union and Comecon, the Soviet-dominated trading bloc.

This appears to be the aim behind a government shake-up announced on Friday after an extraordinary plenum of the Cuban Communist Party's Central Committee. President Castro last month warned Cubans that "we are living in uncertain times". However, these are the first public steps the Cuban leader has taken in response to the fast evolving situation in eastern Europe.

New blood has been brought

into both the party's political bureau and the secretariat of the central committee as well as the Cuban embassy in Moscow. There is a new coordinator of the neighbourhood defence committees - the Committees for the Defence of the Revolution (CDRs) - which are the party's most direct means of grassroots control. The leadership has also been changed in the umbrella labour organisation, the Cuban Workers' Federation, and in the farmers' union.

Official comments have cryptically referred to the need to "perfect the political and institutional system". However, there is no indication that President Castro has altered his frequently stated opposition to ending the vanguard role of the Communist party at the expense of the Ministry of the Interior. This reflects a trend set in motion by the shake-out following the discovery last year that Interior Ministry officials were involved with the Colombian cartels.

Cuba faces another year of stagnant growth, a maximum sugar harvest of 7.5m tons and increasing dislocation in its dealings with Comecon partners. While the Soviet Union is still pledged to continue its aid, both sides are far from agreeing numbers.

Granma, the official news agency, said the changes would lead to "an improvement of the single Leninist party based on the principles of democratic centralism". Some observers have detected an increase in

the influence of the Armed Forces Ministry personnel at the expense of the Ministry of the Interior. This reflects a trend set in motion by the shake-out following the discovery last year that Interior Ministry officials were involved with the Colombian cartels.

General Batista Santana, a veteran of the African wars and formerly head of the sixth division, has been put in charge of coordinating the Neighbourhood Defence Committees. The CDRs have thus been earmarked for an enhanced role in controlling potential street discontent.

The shake-up in the trades union movement sees the departure of CTC leader Mr Roberto Veiga who has held



Castro: 'uncertain times'

the post since 1980. The CTC held its 16th congress last month and is drawing up new work codes. Shoddy work practices were last week criticised in a report into rail accidents.

**UK holds out aid carrot to Vietnam**

By Our Foreign Staff

BRITAIN held out the prospect of resumed aid to Vietnam yesterday as a carrot to try to persuade the Hanoi Government to accept the forcible return of more boat people from the overcrowded camps in Hong Kong.

Hanoi officials say they believe economic improvement will help dislodge more boat people from setting off from Vietnam but Hong Kong officials, already struggling with 56,000 boat people in camps, fear that the imminent sailing season could see up to 40,000 more leave.

Mr Francis Mandie, a junior Foreign Office minister, arrived in Hanoi for four days of talks aimed at persuading the Communist regime to accept more mandatory flights from Hong Kong.

So far there has been only one flight which took 51 people, of whom only eight were adult males, back to Vietnam in December. Since then Vietnam, which has argued that each flight must be negotiated separately, has refused to allow any more. Britain agreed to pay \$850 (£385) for each person forcibly ejected from Hong Kong and, although the money has been paid by Britain for the first plane load, none of it has reached the returnees themselves or their villages, although the agreement was that it should go towards their welfare and reabsorption.

Mr Mandie said yesterday that Britain was willing to resume aid to Hanoi. It was stopped 12 years ago when Vietnam invaded Cambodia.

But a resumption would be on the condition that Vietnam "fulfilled its international obligations". Among these, he said, was the duty to accept back its citizens deported from other

countries. He would not give details of any aid he could offer, but said it would aim to consolidate economic reforms.

Hanoi officials say they believe economic improvement will help dislodge more boat people from setting off from Vietnam but Hong Kong officials, already struggling with 56,000 boat people in camps, fear that the imminent sailing season could see up to 40,000 more leave.

Mr Ennys Davies, the British ambassador in Hanoi who has been hailing with the communist government on ways to stop the flow and bring the boat people home, said word appeared to be getting through that Hong Kong was a dead-end. The tales brought back by 1,169 Vietnamese who have returned voluntarily since March last year seemed to be turning the tide.

Britain accepts that Vietnam has effectively ended its military presence in Cambodia. This removes the cause of the original aid ban although the US, still smarting from its defeat at the hands of the Communists in the Vietnam War, now says there must be a comprehensive settlement in Cambodia before it lifts the embargo on Vietnam.

Apart from the moral arguments Vietnam uses against mandatory repatriation, it also faces considerable difficulty with the reception and re-integration of hundreds of people.

**Peking adamant over HK elections**

By John Elliott in Hong Kong

BRITAIN's hopes of persuading China to speed up Hong Kong's pace of democratic development were dashed at the weekend when a senior Peking government official said it would not be possible to improve the colony's newly completed Basic Law before China regained sovereignty in 1997.

The law's plans for the introduction of democracy before and after 1997 have been widely condemned in Hong Kong where several hundred people staged a protest march yesterday to offices of the Xinhua News Agency, China's de facto embassy.

The UK agreed with China last week that it would start direct elections in Hong Kong with 15 seats in a 50-seat legislature next year, and then go up to 20. To dampen local opposition, the UK said last Thursday it hoped China would agree later to a higher figure than 20 for the 1995 legislature which is to continue in power after 1997 for a four-year term.

Asked on Saturday whether such an increase could be introduced before 1997, Mr Li Hou, secretary general of the drafting committee and a senior Peking official, simply said: "Su kengde", which means "impossible".

The law was hailed on Saturday by Mr Deng Xiaoping, the veteran Chinese leader, as a "a document of great historical importance".

The 85-year-old Mr Deng appeared at a final ceremonial meeting of the law's drafting committee with other top Chinese leaders, demonstrating the importance that China is giving to the approach of 1997 and the completion last Friday of the law. Speaking in a voice which wavered slightly, he said that the concept of "one country, two systems" devised to unite communist China with capitalist Hong Kong had international implications for the whole of mankind.

Yesterday Peking's government-controlled People's Daily reported that Mr Deng had told visitors recently that he hoped to live to see the 1997 transfer of sovereignty and would like to visit Hong Kong.

**Cigarette marketing plan has health lobby fuming**

By Peter Riddell, US Editor, in Washington

ARE you a "virile female", an 18- to 20-year-old American woman with only a High School education or less who dresses in jeans and sweatshirts and likes going to drag races, hot rod shows, wrestling and "tough man" competitions?

If so, then you may be a prime target of Dakota, a new cigarette brand to be test-marketed soon by R.J. Reynolds, a unit of R.R. Nabisco, the US food and tobacco group, according to an independent consultant's marketing plan leaked at the weekend.

The disclosure comes only a month after Reynolds was forced by public outcry to withdraw Uptown, a cigarette aimed specifically at blacks, and as the

Bush Administration is about to launch an initiative aimed against such targeted tobacco advertising.

Mr Louis Sullivan, Health and Human Services Secretary, said it was "especially reprehensible to lure young people into smoking and potential lifelong nicotine addiction. The risk that smoking specifically poses for women adds another tawdry dimension to any cigarette marketing effort aimed at younger women".

Reynolds has confirmed plans to market Dakota, but said it was aimed at both male and female "current adult smokers" of Marlboro, the leading brand sold by the rival Philip Morris

Moreover, Reynolds disclaimed direct knowledge of the marketing plan referring to "virile females", which was produced by Promotional Marketing, an outside consultant working for the tobacco group. Several other contractors have also been involved in planning the marketing of Dakota.

The report from Promotional Marketing disclosed in Saturday's Washington Post, offers a profile of the "virile female", aged 18 to 20, who regards her work as a job rather than as a career, wants to get married in her early 20s and have a family, and spends her free time doing whatever her boyfriend likes.

The controversy over targeted advertising comes when smoking is falling among Americans - down 6 per cent last year - though the decline is slower among less educated, blue-collar workers, women and blacks.

Tobacco groups argue that the advertising is only aimed at winning existing consumers from one brand to another, though public health officials criticise the targeting of these groups, who are the most susceptible.

One of the most successful brands, Virginia Slims, has been aimed especially at women.

Tobacco use is the largest preventable cause of disease and death among American women, according to official US research.

**India mends its bridges with Kathmandu**

By Rezauddin Ahmed in Dhaka

AN OFFICIAL Indian delegation is to visit Nepal to discuss terms for the withdrawal of the trade barriers imposed on the land-locked Himalayan kingdom by Mr Rajiv Gandhi, the former Prime Minister.

Mr Inder Kumar Gujral, the Indian External Affairs Minister, who announced the move yesterday during a visit to Bangladesh, also confirmed that India intends to complete the withdrawal of its troops from Sri Lanka by March 31.

Both statements underline the desire of Mr V.P. Singh, the new Indian Prime Minister, and his Government to

improve relations with India's smaller neighbours. Mr Gujral invited Mr Anisul Islam Mahmud, the Bangladeshi Foreign Minister, to visit Delhi in May to discuss the bilateral problems of sharing the water of the Ganges River and 54 other common rivers, the return of tribal refugees to Bangladesh from the Indian state of Tripura and to explore the possibility of economic joint ventures between India and Bangladesh.

Mr Gujral said both sides took note of changes in the international community which suggested a new era of peace might have started.

**Nepalese riot over democracy**

POLICE BATTLED with thousands of anti-government students and political activists in central Kathmandu on Sunday and at least four people were killed in clashes in the Nepalese countryside, Reuters reports from Kathmandu.

Banned political parties allied in the Movement for the Restoration of Democracy (MRD) defied an official crackdown to launch the first demonstrations in the capital against the Himalayan kingdom's non-party political system for 11 years.

Police baton-charged and tear-gassed thousands of protesters who repeatedly regrouped, waving outlawed party flags and chanting: "We want democracy."

At least four people were killed when other protests broke out in towns and villages.

Witnesses said two students and a policeman died in a gunbattle in Chitwan, a village 150 km southwest of Kathmandu, after activists burnt a government forestry vehicle which police were using.

State-run Radio Nepal, quoting Interior Ministry sources, said a policeman was killed when demonstrators hurled a large stone at his head in Hetanda, 100 km south of Kathmandu. The radio said police had been injured by someone

rowers in two other towns and listed another 10 localities where it said the situation was now under control - implying there had been protests earlier.

The government admits detaining over 500 people before Sunday's launch of the campaign for open political activity and there has been growing concern about human rights among foreign aid donors to Nepal, one of the world's 10 poorest countries.

Absolute monarch King Birendra, widely regarded as a divinity in Nepal, launched Democracy Day with a radio address defending the party-less system of elected councils from village to national level.

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## OVERSEAS NEWS

# Victorious Japanese leaders will find no easy answers

Poll results will bring little assurance for the Liberal Democrats that it is back to business as usual, Ian Rodger reports

**A**T first glance, the results of yesterday's substantial election victory for the ruling Liberal Democratic Party would suggest that it is back to business as usual in Japan.

The LDP now has a clear majority in the lower house, its leaders who went into purdah because of involvement in the Recruit bribery scandal last year, can return to occupy positions of power, and the opposition parties can no longer claim with the same authority they had last week that they represent the public's true feelings.

In some ways, the series of mishaps and disasters that befall the LDP in the past two years and which largely paralysed the political process in the country was aberrant.

Everyone knew that the introduction of a 3 per cent consumption tax was going to be unpopular with housewives and the government's agreement, under pressure from the US and other foreign governments, to open some farm product and other markets, was bound to alienate important segments of the LDP's constituency.

However, it was widely thought that the party could weather these problems when



Premier Toshiki Kaifu (left) awaits results; Socialist Party leader Takako Doi meets the press

it had to face the electorate, not least because of the inexperience of the opposition parties.

It was the Recruit scandal, which revealed the extent to which some LDP leaders were prepared to stoop to raise money, which provided that extra bit of anger that made voters turn against the LDP in huge numbers.

Then the disclosures that Mr Sosuke Uno, the prime minister brought in last June to provide a clean image for the party, had had an affair with a

part-time geisha roused a hitherto passive feminist vote to action. But it would probably be wrong to see the events of the past year as an unfortunate coincidence of events causing a coinciding protest trend that has now been softened or even forgotten.

So much has happened in Japan in the past two years while the politicians have been mesmerised by their own problems that it is difficult to imagine the country and the LDP going back to

business as usual. Perhaps the main change is in the world's awareness of the size and importance of Japan. In the past, LDP governments were adept at fending off demands from foreign countries that Japan open its markets or participate more in international financial institutions. The most notorious technique was to promise to make changes but then do nothing, and hope that the foreigner would lose interest or weary of pursuing his claim.

Today, when Japanese institutions play key roles in world financial and property markets and Japanese industrial companies continue to expand around the world, the foreign demanders are much less likely to lose impetus, and the Japanese government finds it much more difficult to hide.

That trend, in fact, has been one of the roots of the LDP's troubles in the past two years.

If the US had not been insistent that the Japanese government open its farm product markets, the LDP would not have lost the farm vote.

Foreign pressure has receded

in the past year or so in deference to the political instability that emerged in Japan.

But in the wake of yesterday's election result, it can be expected to intensify immediately. US trade representatives are arriving in Tokyo this week to carry on negotiations over Japan's so-called structural impediments to trade. During those discussions, the Japanese government will be asked to remove legislative restrictions on the establishment of supermarkets and large chain stores, to root out bid-rigging in the construction industry, to enforce anti-monopoly legislation more effectively, and to open more pro-

Japanese House of Representatives Election			
Party	Yesterday's Result	Seats at Dissolution	Seats in 1986
Liberal Democratic Party	240 (0)	255	300
Japan Socialist Party	114 (4)	83	85
Komeito	31 (0)	54	66
JCP	13 (2)	26	26
DSP	12 (0)	25	25
USDP	3 (0)	4	4
Progressive Party	0 (0)	1	1
Other minor parties	6 (0)	0	6
Independents	16 (1)	7	9
Vacancies	-	17	17
Total	431 (7)	512	512

Figures in brackets indicate number of women.

Newly-elected new Liberal Club won six seats in 1986, counted as among other minor parties.

Source: Asahi Shimbun

Photo: Kyodo News

Illustration: Asahi Shimbun

Photo: Kyodo News

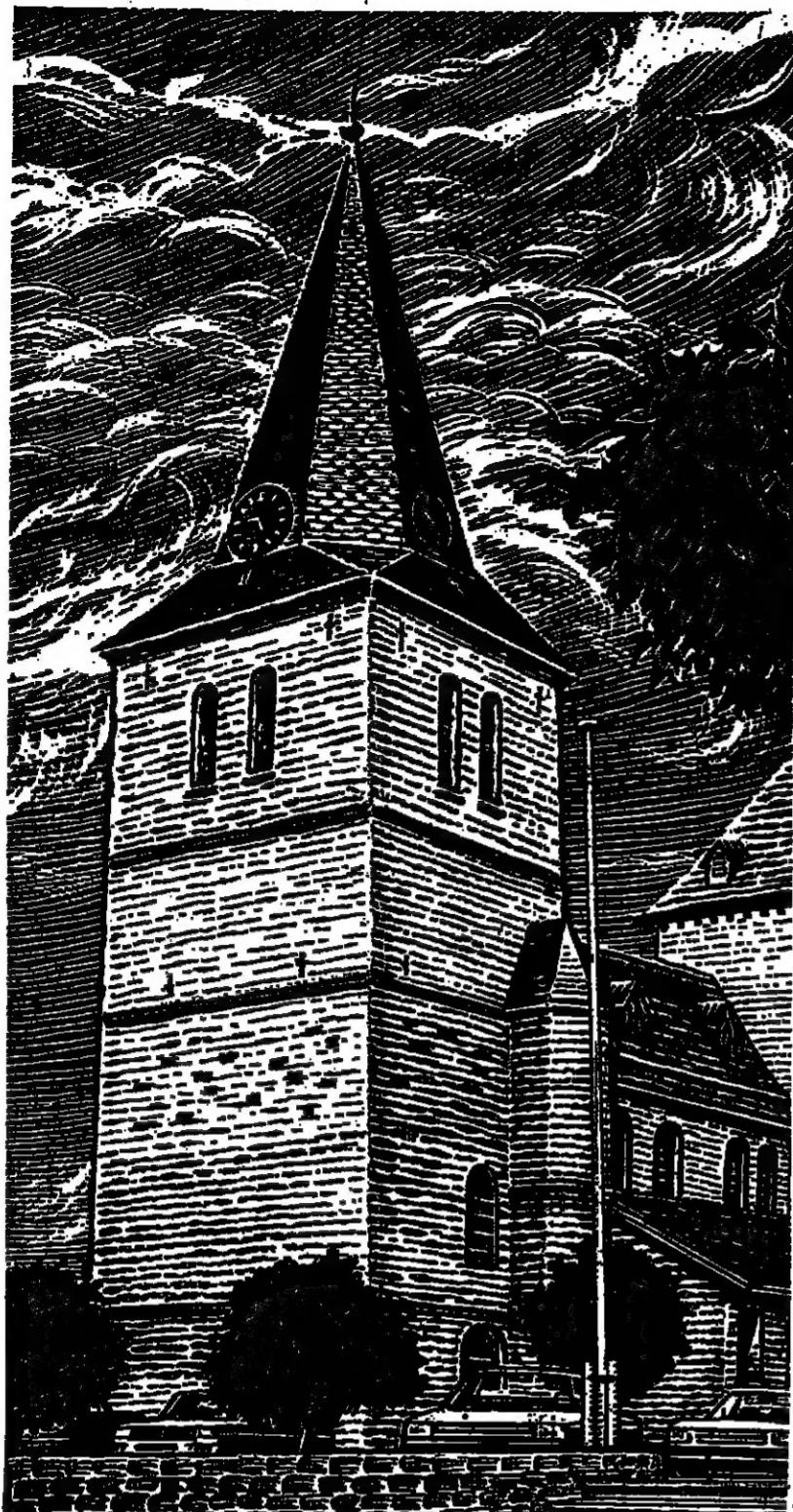
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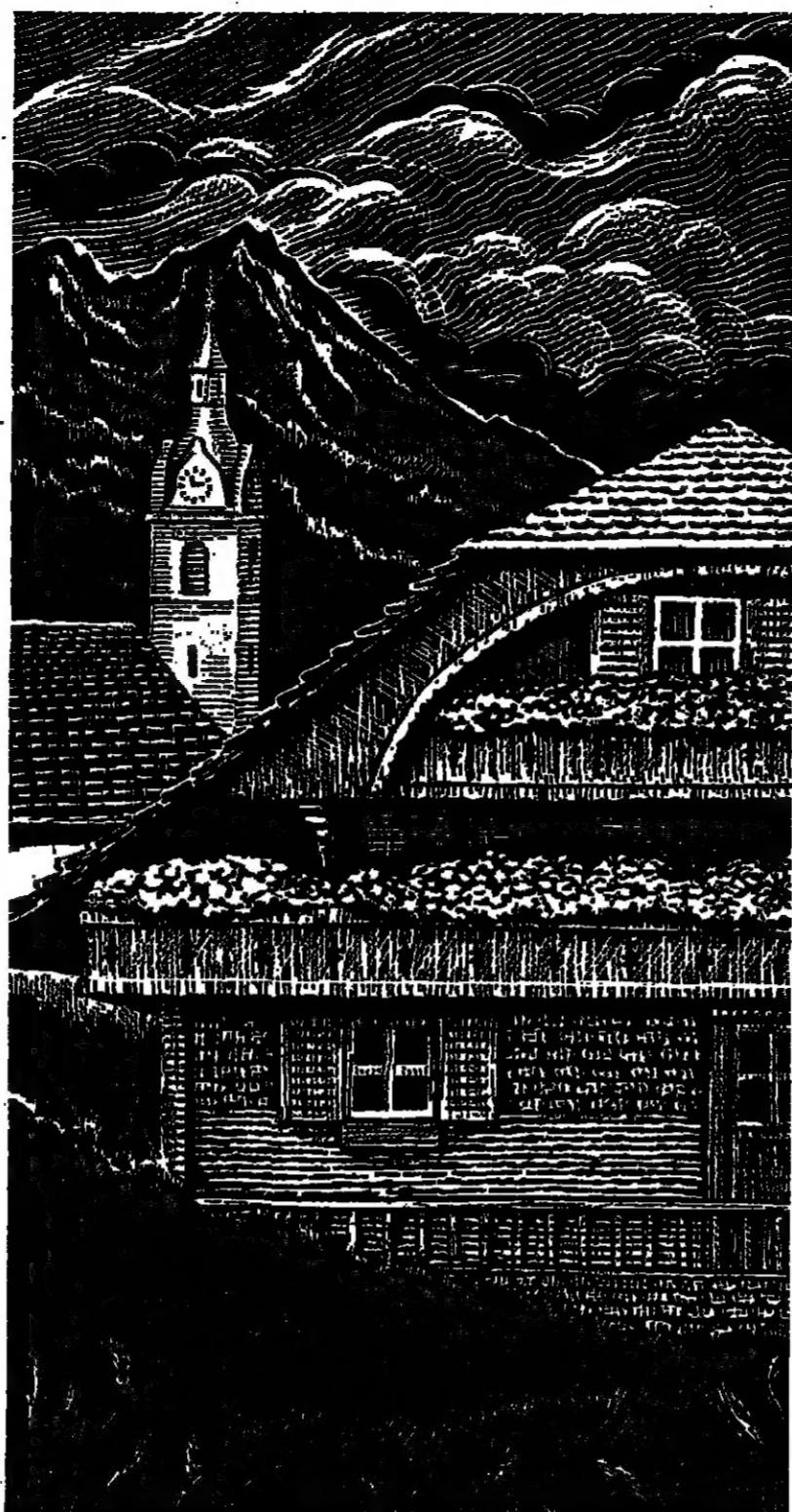
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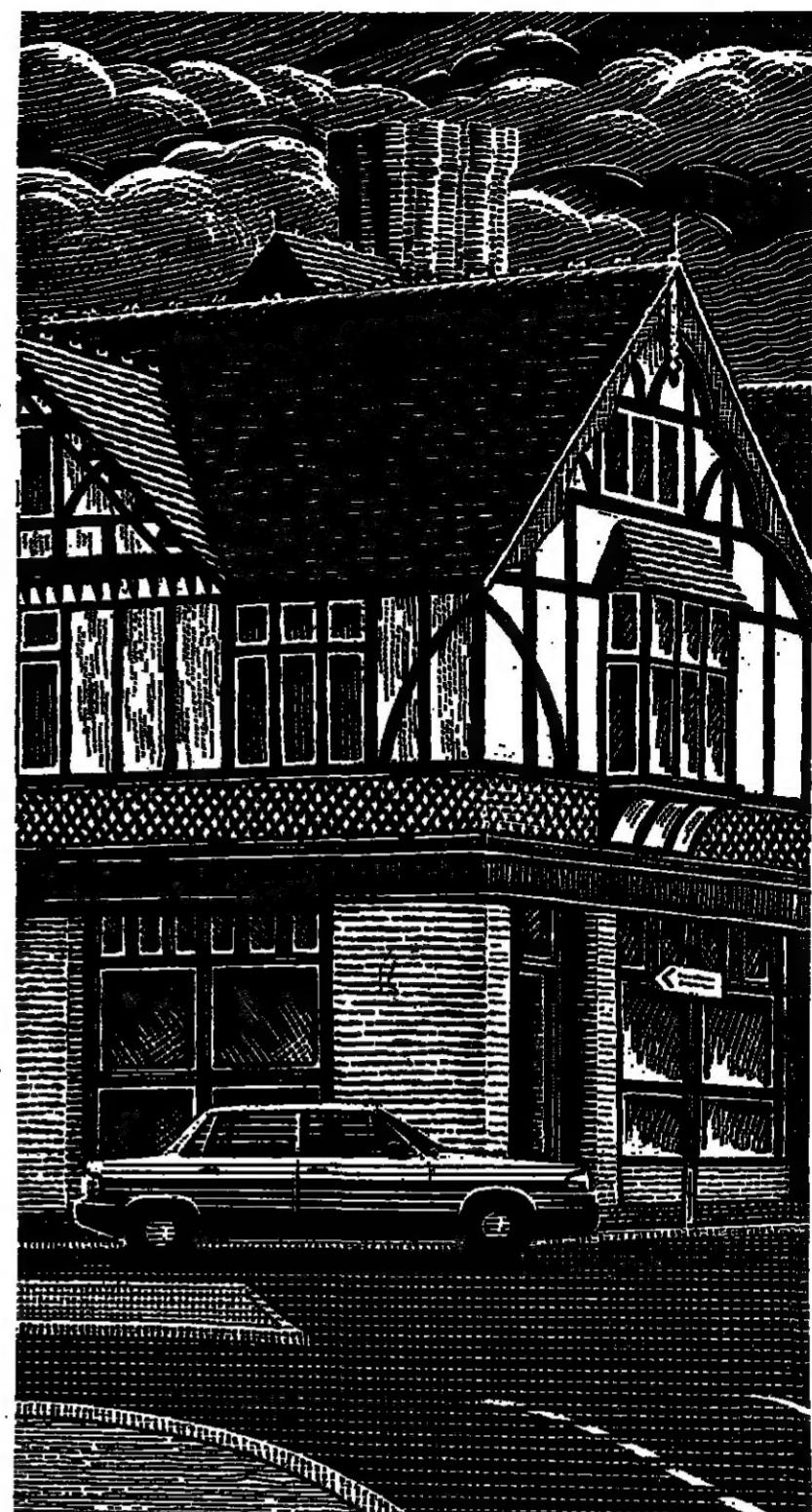
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**THE WALL STREET JOURNAL.  
EUROPE**

## UK NEWS

## Senior civil servants to benefit from pay points

By Michael Smith, Labour Correspondent

HIGH ranking civil servants in the United Kingdom could see their salaries rise by up to 24 per cent this year following the introduction of a scheme aimed at halting a brain drain to the private sector.

The "personal pay points" scheme could mean rises for a small number of employees in civil service Grades 4-7 of more than £3,000. These will be in addition to annual pay deal increases which took the salaries of the highest earners in the group to more than £40,000.

Disclosure of the scheme is likely to anger the relatively lowly paid ambulance workers who are staging industrial action over a pay offer which would increase wages by 9 per cent over 18 months. Civil Service unions are also concerned about the scheme.

They believe it will lower morale, and may increase resignations, among the vast majority of Grade 4-7 civil servants who do not receive personal pay points. They are also worried about the increased patronage it affords managers who make decisions on pay.

The Treasury said yesterday that personal pay points were distinct from performance pay and would be available to people whose skills were particularly marketable in the private



Elizabeth Symons: 'scheme was not thought through'

sector. The system could also help departments persuade personnel to do certain jobs.

The Treasury said payments would only be made in exceptional circumstances, to a small number of staff and at the discretion of departments.

Costs would come from existing departmental budgets and would have an infinitesimal effect on the overall pay bill.

Last autumn, the Government agreed a deal with the FIDA, IPMS and NUPE civil service unions which lifted the pay bill of Grades 5-7 personnel by 2.7 per cent in a full year. The flexibility of the agreement meant that most civil servants in the south-east won between 11.2 and 12.2 per cent and another 4 per cent was available for exceptionally good performance.

The personal pay system, already in operation for higher paid Grades 3 and 4 allows civil servants in most cases to rise up to 2 points, each worth about 4 per cent.

However a special pay award will reduce the amount of performance pay available in future years.

Unions are seeking clarification on the criteria for making personal pay awards and on how they can be withdrawn.

Ms Elizabeth Symons, FIDA general secretary, said: "This scheme has not been properly thought through. The civil service is losing very capable staff to better paid jobs outside."

Local union officials turned down an invitation to defer today's action as well as to be represented in court yesterday. Mr Andy Dobbinson, a NUPE branch official said: "It looks as if we will be locked out from work from Monday."

## Injunction blocks rebel ambulance service

By Lisa Wood

AMBULANCE staff in South Glamorgan, Wales, were prevented from starting up their own accident and emergency service to run from today when an injunction was granted in the High Court yesterday.

South Glamorgan Health Authority was granted the injunction, stopping the ambulance staff using service ambulances, until tomorrow. Outside the court, Mr James Watt, a solicitor for the Welsh Office which applied for the injunction on behalf of the health authority, said summonses had been issued and both parties would be able to bring the matter to court tomorrow.

South Wales police are now expected to take a part in the running of the 999 service. The county's ambulance staff have refused to accept instructions from controllers and planned to run their own service.

Local union officials turned down an invitation to defer today's action as well as to be represented in court yesterday. Mr Andy Dobbinson, a NUPE branch official said: "It looks as if we will be locked out from work from Monday."

## Skills shortage to force up wages

By Ian Hamilton Fazey

EXPERTISE shortages are going to force up pay and distort wage structures in Britain in the next three years, however much the Government urges restraint on employers, according to a survey of private sector companies published today.

Most employers expect to need more managers and technicians, but fewer supervisors, clerks, and unskilled manual workers.

The main shortages will be of electricians and fitters, finance and accounting staff, information technology specialists and, in some areas, truck drivers.

The survey, by Collinson Grant, a Manchester-based

young families.

Instead,

a majority of companies intend to re-employ women who have raised a family and make more use of part-time working and flexible working hours to accommodate them.

Although 16 companies said they would recruit "key skills" workers from anywhere in the UK or other EC member states, most will use recruitment as the main option for clerks and unskilled manual workers.

Only one-third regarded

shortage of foreign language

skills as much to worry about.

There was no pattern as to location, but Mr David Jones, the author of the report, says:

"Perhaps the cynic's view prevails that English will become the single European language of

the market and there is no urgency for learning another."

Nearly all companies said

they had no trouble in hanging

on to managers and supervi-

sors but struggled to keep tech-

nicians and craftspeople.

half planning to recruit sub-

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**NOTICE OF ADJOURNED EXTRAORDINARY GENERAL MEETING**  
The Extraordinary General Meeting of Shareholders of Mercury Offshore Sterling Trust held on 15th February, 1990 having been unable to consider and vote on the resolutions pertaining to the amendment of the Company's Articles of Association, since the quorum imposed for such resolutions was not reached, an Adjourned Extraordinary General Meeting of Shareholders of Mercury Offshore Sterling Trust will be held at its registered office at 10, boulevard Roosevelt, Luxembourg, at 11.00 a.m. on 22nd March, 1990 for the purposes of considering and voting upon the following matters:

Agenda of the Adjourned Extraordinary General Meeting of Shareholders

6. To resolve that paragraph (3) of Article 4 of the Articles of Association be amended to read as follows:

"The Company may invest in transferable securities admitted to official listing on stock exchanges, or dealt in on regulated markets which operate regularly and are recognized and open to the public, in any member country of the European Community ("Member State"), or in any other country in Europe, Asia, Oceania, the American continents or Africa and may, subject to the law, invest in recently issued transferable securities the terms of issue of which provide that application be made for admission to official listing on any such stock exchange, or to any such regulated market";

with such modifications as may be required by any regulatory or listing authority.

7. To resolve that Articles 1, 8, 13, 15, 16 and 17 be amended, such amendments involving principally the changes described in the Explanatory Note sent to Registered Shareholders with the Notice of the original Meeting, subject to such modifications as may be required by any competent regulatory or listing authority.

Voting  
Resolutions on the Agenda of the Meeting of Shareholders may be passed by a majority of 75 per cent. of the votes cast thereon at the Meeting, with no requirement as to quorum.

**Voting Arrangements**

In order to vote at the Meeting:

- the holders of bearer Shares must deposit their Shares not later than 15th March, 1990 either at the registered office of the Company, or with any bank or financial institution acceptable to the Company, and the relative Deposit Receipts (which may be obtained from the Secretary of the Company) must be forwarded to the registered office of the Company to arrive not later than 15th March, 1990. The Shares so deposited will remain blocked until the day after the Meeting or any adjournment thereof;

- the holders of registered Shares need not deposit their certificates but can be present in person or represented by a duly appointed proxy;

- Shareholders who cannot attend the Meeting in person are invited to send a duly completed and signed proxy form to the registered office of the Company to arrive not later than 14th March, 1990. Proxy forms were sent to registered Shareholders with the notice for the original Meeting and can be obtained from the registered office. A person appointed a proxy need not be a holder of Shares in the Company; lodging of a proxy form will not prevent a Shareholder from attending the Meeting if he subsequently decides to do so.

The proxy forms received by the Company for the Extraordinary General Meeting of Shareholders convened for 15th February, 1990 need not be renewed and will be valid for the Extraordinary General Meeting of Shareholders convened for 22nd March, 1990.

**Information for Shareholders**  
Shareholders are advised that a draft (which is subject to modification, where applicable, to comply with the requirements of the competent regulatory and listing authorities) of the detailed changes proposed to the Articles of Association of the Company are available for inspection at the registered office of the Company and at the following places:

S.G. Warburg & Co. Ltd.,  
Payne Agency,  
2, Firstbury Avenue,  
London,  
EC2M 2PA,  
England.

Banque Internationale à Luxembourg S.A.,  
2, boulevard Royal,  
L-2014 Luxembourg,  
Grand-Duchy of Luxembourg.

A draft of the Articles of Association as amended will be available for inspection at the Meeting. None of the directors has a service contract with the Company.

**Recommendation**  
In the opinion of the Directors the alterations to the Articles of Association proposed in Resolution Numbers 6 and 7 are in the interests of the Company and its Shareholders. Accordingly, the Directors recommend that all Shareholders vote in favour of the Resolutions set out above.

19th February, 1990  
The Board of Directors

**IG  
INVESTMENT GROUP**  
9-11 GROSVENOR GARDENS, LONDON SW1W 0BD  
Tel: 01-628 7233 AFBD member

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## UK NEWS

# Patten seeks £2bn to lessen poll tax damage

By Philip Stephens, Political Editor

MR Christopher Patten, the Environment Secretary, is to press the Treasury for a substantial increase in resources for local authorities next year in an attempt to lessen the damage done to the Government by the community charge.

His move, which Whitehall insiders say has already been discussed informally with Mr John Major, the Chancellor, is expected to win a sympathetic reception.

Figures have not been discussed but one Whitehall official said that Mr Patten could be looking for up to £200 extra when the Treasury fixes its local authority Revenue Support Grant in July.

## Girobank in £6m bid for cash sector

By Ian Hamilton Fazey, Northern Correspondent

GIROBANK has spent £2m in an attempt to capture the bulk of the cash payments sector of the poll tax market by offering a cheap handling service to local authorities. The market is likely to be worth up to £200m a year in revenue.

The bank has set up a unit and taken on 107 staff so that the estimated third of charge-payers who will prefer to make payments in cash can pay the tax in weekly, fortnightly or monthly cash instalments at any post office. Payment slips will be processed in the bank's headquarters at Boothle, Merseyside, and magnetic tapes recording them will be given to subscribing local authorities and their bankers.

Girobank, which is in the final stages of being taken over by the Alliance and Leicester Building Society, says it has concluded that there is prima facie evidence of infiltration by Militant extremists.

The findings, contained in an interim report, will strengthen expectations that the National Executive Committee (NEC) will decide to overturn the local party's decision to drop Mr Field, the sitting MP, as its candidate at the next general election.

After the local party chose Mr Paul Davies, a TGW transport union official, as its candidate Mr Field compiled a 150-page dossier alleging widespread irregularities and extremist infiltration.

Some of the allegations have been described by Mr Field's colleagues at Westminster as "fanciful." NEC members have privately criticised his outspoken campaign to keep the seat.

The party leadership, however, is thought to consider that the selection process has

more broadly, some backbench Conservative MPs plan to renew their campaign for the Government to take direct control of large areas of expenditure, particularly on education, at present administered by local authorities. That would not be possible, however, until after the next general election.

Ministers acknowledge there is growing concern that, unless extra funds are made available to the authorities, the poll tax could undermine the Government's campaign at the general election.

They already expect the combination of rising mortgage rates and the introduction of the tax to give Labour substan-

tial gains in the May local elections and fear it could allow the opposition to overturn a 14,500 Conservative majority in next month's by-election in Mid-Staffordshire.

It is now recognised in Whitehall that the average bill when the tax is introduced in England and Wales in April may turn out to be 26 per cent higher than the £278 predicted by the Environment Department.

That will exacerbate the Government's difficulties in holding down inflation. Original forecasts that the poll tax would add 0.5 percentage points to the retail price index are now viewed as an underestimate. The actual figure may

turn out to be closer to 0.75 per centage points.

Ministers, meanwhile, are bracing themselves for another round of mortgage rate increases this week, with many of the building societies following the lead of the Abbey National and setting a rate of more than 15 per cent.

The general expectation is that the retail prices index, which remained at 7.7 per cent in January, will be showing increases far above 8 per cent by the early spring.

The political damage inflicted by the poll tax has led to a outcry within the Cabinet, with Mr Nicholas Ridley, the former Environment Secretary, being blamed by a num-

ber of ministers for "mishandling" its introduction.

Mr Ridley, now Trade and Industry Secretary, negotiated a deal with the Treasury last year which included an effective freeze in real terms in the Environment Department's support for local authorities.

Some of his colleagues blame that agreement for the fact that scores of Conservative-controlled councils are planning to set their poll tax at levels much higher than those recommended by the Government.

Mr Patten is facing pressure to "cap" the spending plans of authorities setting the highest charges but it is recognised that from it could be to blame.

Mr Coghill, 19, a student from Aberdeen, was diagnosed as suffering from acute myeloid leukaemia 10 years ago. She was born and brought up near Thurns, which is close to the plant, and claims that radiation from the plant, caused by the accident, has led to her illness.

Mr Coghill has been granted legal aid to fight the case, which could set a precedent for other claims by families who believe that childhood leukaemia could be linked to living close to power stations.

A report in June 1988 by the Committee on Radiation in the Environment found up to six times the expected level of leukaemia cases around Dounreay. Ms Coghill's case was part of that study.

A Medical Research Council report on cases around the Sellafield plant, Cumbria, last week suggested that men exposed to high doses of radiation might have a higher probability of fathering children with leukaemia, or other cancers.

The solicitor representing some 35 leukaemia sufferers in the Sellafield area wrote yesterday to British Nuclear Fuels urging it to set up a compensation fund for the children of Sellafield workers who are victims of leukaemia.

## Theme park fear

BRITISH wildlife conservationists fear that a nature reserve on 1,000 acres of marshland in Essex could be used as the site for a proposed 52ha theme park and film studios.

The Ministry of Defence confirmed yesterday that the marshland, which is both a firing range and a nature reserve, would be available for sale.

The MOD, however, said that the company which bought it would have to provide an alternative site for a firing range.

The proposals for building the film studios and theme park at Rainham in Essex have still to be considered by the London Borough of Havering.

A meeting is expected shortly to decide whether outline planning permission should be granted.

BR

assurance sought

MR John Prescott, shadow transport secretary, yesterday called on the Government to renegotiate British Rail's corporate plan to ensure the full implementation of the safety programme recommended by the inquiry chaired by Sir Anthony Haden into the 1988 Clapham rail disaster.

Mr Prescott wrote to Mr Cecil Parkinson, the Transport Secretary, demanding an assurance that there would be no delay in implementing the recommendations.

He said he believed the full cost of fulfilling the recommendations in the Clapham inquiry report would be "far higher" than the £200m budgeted for in British Rail's new corporate plan.



Frank Field: alleges irregularities and infiltration

## Professor sees full EMS membership possible in 1991

By Michael Prowse

BARTAIN will be able to join the exchange rate mechanism of the European Monetary System in the middle of 1991, according to Professor Alan Budd, economic adviser to Barclays Bank.

Writing in Barclay's February economic review, published today, Professor Budd says the conditions laid down by Britain should be met by then. France and Italy would have liberalised capital movements and further progress would have been made

on the 1992 single market reforms.

More important, the gap between UK and West German inflation and interest rates — the main obstacle to full membership — should have reduced. By the summer of 1991, Professor Budd says, UK inflation (excluding mortgage interest) will be 5 per cent, only 1 percentage point higher than West Germany's.

By then, UK interest rates should be down to 12.5 per cent, only 4 to 5 percentage

points higher than West German rates, compared with a current differential of 7 points.

An interest rate gap of 4 to 5 points is seen as the largest differential compatible with the rigidity brought about by full EMS membership.

Joining sooner than summer 1991, however, would be counter-productive because the interest rate differential would be too large. Membership of the exchange rate mechanism would precipitate a sharp fall in UK rates and undermine the

Government's anti-inflation strategy.

Professor Budd warns that full EMS membership next year would not be a panacea for British inflation. If average earnings, which are rising almost twice as fast as in West Germany, did not adjust quickly, entry could rapidly increase unemployment.

*Barclays Economic Review, February 1990. Economics Department, Barclays House, 1 Wimborne Road, Poole, Dorset BH15 2BB.*

## Pensions ruling could cost £30bn, say consultants

By Eric Short, Pensions Correspondent

UK EMPLOYERS could face an immediate bill of up to £30bn on their pension schemes if the European Court rules in favour of a British employee claiming sexual discrimination over early retirement provisions, according to William M. Mercer Fraser, the employees' benefit consultancy firm.

The European Court is expected to pass judgment soon in the case of *Barber v. Guardian Royal Exchange Assurance* over a complaint brought by an employee against his employer.

The ruling could bring about complete equality between men and women in company pension schemes. In addition to the immediate extra cost, it could add a further £2bn to the annual costs of funding pension schemes, according to Mercer Fraser.

The employee was made redundant at the age of 52. However, under the company scheme rules, early retirement was available up to 10 years before normal retirement of 65 for men and 60 for women. Women could take early retirement from 50 but this option

was only available to men from the age of 55. Therefore, he was not eligible to take early retirement, whereas a woman of the same age would have been. This, he claims, amounts to discrimination.

The judgment would appear to hinge on whether occupational pensions fall within the definition of pay as set out in Article 119 of the Treaty of Rome. If they do, Article 119 specifically bans discrimination between the sexes on matters of pay and related benefits.

Under the European Court procedures, evidence is collected from both parties in a report on evidence given by an advocate general. The court is not bound to follow the advocate general's opinion but it has done so in most cases to date. The report on the Barber case agrees that occupational pensions are pay and thus, covered by Article 119.

If the Court endorses this conclusion, the implications for UK company pension schemes would go far beyond mere equalisation of pension ages.

Later this year, another case appears



**SPEAK SOFTLY,**

## UK NEWS

# CBI survey finds quarter of adults are shareholders

By Hazel Duffy

AROUND one quarter of the adult British population has at least one shareholding but less than 40 per cent of shareholders have ever sold any shares, according to a survey for a Confederation of British Industry task force.

The survey suggests that share ownership has increased enormously, mostly through privatisation and similar issues, but found that a significant minority of shareholders did not know where or how to buy stocks and shares.

The CBI task force is lead by Sir Peter Thompson, chairman of National Freight Consortium. He said: "We found no evidence to suggest that the new generation of private investors would build their few privatised holdings into balanced equity portfolios, unless there is a radical shift in shareholder attitudes."

The survey, carried out by Harris Research on a sample of 999 adults, took into account the water privatisation issue where relevant.

It found that 43 per cent of respondents saved regularly, most of them to meet a particular future need, so security and convenience were the principal factors influencing investment choice. Only one third were concerned about the rate of interest or the size of dividend.

## Separate taxation set to change savings patterns

By Sara Webb

AS INDEPENDENT taxation of husbands and wives draws nearer, investors are showing renewed interest in National Savings schemes, especially those paying interest gross.

Figures released yesterday show that savers continued to withdraw money from National Savings fixed-interest certificates last month, a trend evident over the past year.

However, they put more into investment accounts, income bonds and capital bonds than in previous months.

These schemes pay interest gross and the National Savings office attributed the surge of £108.5m net into investment accounts partly to the fact that many couples were reorganising their financial affairs in the most tax-efficient way before independent taxation is introduced in April.

Few mentioned the importance of investing in assets which increased in value.

Money inherited from the first generation of home-owners does not seem likely to go into equities. Most of those interviewed said that if they received a gift of £50,000 they would put it into a bank or building society or use it to buy property or pay off a mortgage.

The task force, set up last November, was asked to propose steps "to widen and deepen direct share-ownership in Britain". The idea sprang in part from thinking within the CBI that personal shareholders might be more loyal to companies caught in hostile takeover situations than institutional shareholders.

Some leaders in the employers' group are also strong backs of wider employee share ownership as a means to better communications and stronger identification of employees with companies.

The task force, which includes Mr Neil Staples, managing director of NatWest Stockbrokers, Mr Eric Hammond, General Secretary of EFTPU, the electricians' union, and Mr Patrick Sheehy, chairman of BAT Industries, is due to publish its final report later this year.

# Rising Sun shines into Birmingham's financial area

Richard Tomkins reports on why Japanese banks are starting to open offices in the west Midlands

SOMETHING odd is going on in Birmingham's financial quarter. On the doors of the office buildings lining the streets around Colmore Row, a rash of plaques has suddenly appeared, each bearing the name of different Japanese bank.

Not all the plaques are gleaming new - the Sumitomo Bank has been in the city since 1984 and Mitsubishi Bank since 1988. But the tally has risen to 30 or 40, and are likely to arrive over the next few months.

Toyota is one factor but Japanese companies were already well established in places such as Telford, Redditch and Wrexham and "new arrivals feel more comfortable in places where there is already a Japanese community."

Yet there is more than this to the influx of banks. Those now arriving in Birmingham acknowledge that they had been contemplating expansion from London into the regions long before Toyota announced its decision.

Indeed, just as Sumitomo and Mitsubishi's arrival in Birmingham pre-dated the Toyota announcement, Sanwa and Fuji Bank have offices in Manchester, and Sanwa has an office in Edinburgh.

So it is hard to escape the conclusion that, while Toyota's arrival explains the timing of

## Directors lack training for role, says study

By David Churchill

BRITISH company directors have little formal preparation for their role, according to a survey published today by the Institute of Directors.

The survey of 218 members of the institute found nine out of 10 had received no preparation for becoming a director other than "experience". Less than a quarter had any professional or management qualifications.

The survey also found that

The survey was carried out for the institute by Dr Colin Coulson-Thomas, chairman of research company Adaption. He said: "There does not appear to have been a generally accepted and practised route to the boardroom. Little evidence emerges of systematic and thorough preparation for the role of company director."

The survey also found that



Masao Otsuka: bringing the Bank of Tokyo into the heart of Birmingham

the Japanese influx, the arrival of the banks marks another stage in the overall expansion of Japanese banking in the UK.

The Japanese play down suggestions that the Birmingham offices present a competitive threat. These bureaux are just representative offices, not branches, and so cannot transact business, they say. With just one or two officials apiece, they are certainly too small to make any serious inroads.

Still, there is nothing to stop the Birmingham offices picking up business from UK companies in the Midlands and

more as intermediaries, providing Japanese clients with information and advice. For example, they might seek opportunities for Japanese companies to enter into joint ventures with British ones, or help newly arrived Japanese companies to set up working relationships with local lawyers, accountants and banks.

Transacting it through their London offices. Nor do any of them disguise their willingness to do just that.

The London offices are already active among the top 100 UK corporates in loan and project finance, trade finance and money market instruments. Yet competition for this kind of business is fierce and one aim of stretching out into the regions is to get closer to the next tier of corporates, where profits tend to be fatter.

Sumitomo and Mitsubishi have already enhanced their ability to liaise with British companies by appointing British banking officers to work alongside Japanese managers. The arrival of the Japanese banks is excellent news for the west Midlands as a whole. Coming just as fears of a mini-recession have aroused doubts about the health of the local economy, it is a massive vote of confidence in the durability and long-term prosperity of the region's manufacturing.

The Japanese influx is a boon to Birmingham's efforts to portray itself as an important financial centre - its overseas bank representation had until recently consisted mainly of the offices run by Algemene Bank Nederland, Banque Nationale de Paris and Société Générale.

The indigenous bankers' mixed feelings on the subject are nevertheless understandable. Many remember how the west Midlands boasted a motorcycle industry until the Japanese wiped it off the map.

As Mr Bill Wakelin, assistant corporate director in Birmingham of Barclays Bank, remarks: "You have to respect the Japanese whatever business you are in. They take a long-term view and represent very formidable competition."

## Government considers merger of two tax functions

By Hazel Duffy

THE Government is thinking of bridging the historic divide in the Inland Revenue between tax collectors and inspectors.

The 137 local collection offices are responsible for the collection of taxes, while the 632 local tax offices are charged with ensuring that taxes are paid. They advise employers on setting up methods for tax payment and follow up on those who have not paid the correct taxes.

Experiments to test the feasibility of merging the two functions will be carried out by the

succession were the most pressing concern for six out of 10 directors.

Only one in four rated the liberalisation of European frontiers after 1992 as important, while "internationalisation and preparation for the globalisation of business" ranked last of 10 issues.

Mr John Harper, head of professional development at the institute, said: "Too few direc-

tors in Britain spend sufficient time raising their awareness, updating their knowledge and improving their understanding on matters of concern to professional directors."

It was not surprising that "many boards do an adequate rather than an excellent job."

Professional Development Of- fice For The Board, Institute Of Directors, 116 Pall Mall, London SW1Y 5ED

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## BA acts to strengthen marketing operations

By David Churchill, Leisure Industries Correspondent

BRITISH AIRWAYS is reorganising its senior management structure to strengthen its marketing in Britain and the US.

The move follows the resignation earlier this month of Mr Peter Owen, BA's operations director, and the merging of flight operations and airline marketing under the directorship of Mr Liam Strong, previously marketing director.

In addition, BA is poised to sell its 50 per cent share in Redwing Holidays, the third largest tour operator, because of the slump in short-haul package holiday sales this year. Owners Abroad, the tour operator and airline-ast-brokering group, is understood to be negotiating to buy the stake.

BA has set up a central marketing department to cover all the non-flight aspects of running the airline, such as ticket sales, leisure activities, and advertising and brand development in charge of the department will be Mr Dan Brown, formerly head of the distribution department.

Mr Mike Batt, previously in charge of the smaller brands marketing department, has been given a top marketing job in the US.

• BAA, the British airport group, said yesterday that the average delay for passengers at Heathrow airport in January was 20 minutes - four minutes less than the average delay in January 1989.

This figure did, however, include the 32 per cent of passengers experiencing no delay at all. For those suffering actual delay, the average was 34 minutes against 41 minutes in January 1989.

## INVITATION No. T-10/82

The Peoples Democratic Republic of Ethiopia has received a loan from the American Development Fund in various currencies towards the cost of Road Maintenance Equipment and spare parts and it is intended that the proceeds of the loan will be applied to eligible payments under the contracts for the supply of equipment and spare parts.

The Ethiopian Transport Construction Authority now invites sealed bids from eligible bidders for the supply of Road Maintenance equipment and spare parts. Only Suppliers from member countries of the African Development Bank and African Development Fund state participants are eligible to bid. All Goods and ancillary services must have their origin from member countries of ADB and ADF State participants.

Interested eligible bidders may obtain further information from one set of bidding documents to be collected during office hours from the Procurement Office Room No. 106 upon payment of non-refundable Birr 50.00 per set. Each request for documents shall be accompanied by the official name and address of the bidder.

The closing date for submission of bids shall be 10:00 hours local time on May 9, 1990 at which time the opening will take place in the Conference Room 4th floor of the Ethiopian Transport Construction Authority Headquarters Building.

The Ethiopian Transport Construction Authority reserves the right to reject any or all bids that are not in conformity with all conditions and specifications mentioned in the tender.

## ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

## APPOINTMENTS

### Rothmans finance director

Mr Jon P. du Plessis has been appointed group finance director of ROTHMANS INTERNATIONAL from March 1. He succeeds Mr Malcolm E. Thompson, who died last month. Mr du Plessis is finance director of Compagnie Financiere Richemont, a post he will retain while moving from Switzerland to the UK.

Between them, the offices have more than 50,000 staff around the country.

Experiments to test the feasibility of merging the two functions will be carried out by the

Board of the Inland Revenue, has told the Commons: "The time is now ripe to consider whether greater operational efficiency and improved service to taxpayers could be obtained by bringing together the work of local collectors and inspectors of taxes."

Between them, the offices have more than 50,000 staff around the country.

Mr Andrew McQuillan has been appointed managing director of KHD GREAT BRITAIN, UK subsidiary of Klöckner-Humboldt-Deutz Group, Cologne. He joins from Perkins where he was in charge of subsidiary Gardner Engines. Mr John Edwards has been appointed general manager of the engine division Deutz Motor. He was in the product marketing department in Cologne.

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strengthen  
operation

Industries Correspondent  
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are in charge of the  
country. It will be my  
duty to report to the  
Government's head of the  
new government.

Mr. M. G. Bell, presi-  
dent of the British  
Manufacturing Association,  
has given a top ranking  
to the U.S.A.

• U.S.A. the British  
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No. T-1082

VILLE  
SECRETARY



## AND CARRY A BIG STICK.

Those words were first used by Theodore Roosevelt to describe US foreign policy.

But they could easily be used in 1990 to describe the BMW 750i. For the sheer majesty of the car belies its might.

Beneath the bonnet sits a perfectly balanced V12. A 5 litre engine that sweeps the car from 0 to 60 mph in precisely 7 seconds. And develops 300 bhp.

Super power, indeed.

The walls of the cylinders are machined from lightweight aluminium, to an accuracy of 1.5 microns. (To put that into perspective, a human hair is 50 microns thick.)

The result is the most harmonious engine found in any luxury saloon.

Policing its performance, there are two Motronic engine management systems.

Their sensors, like so many nerve endings, continually monitor the engine's performance. Retuning it up to 600 times a second, to ensure peak efficiency at all times.

Such an unconventional engine seemed no place for a conventional throttle cable.

Instead, BMW have installed an electronic accelerator. A device that speeds the driver's commands from pedal to power plant by voltage rather than linkage.

The automatic gearbox also integrates engineering with electronics.

BMW's engineers have developed a four-speed transmission that 'talks to' the engine management system each time it shifts gear.

Changes are so smooth, you may need to glance at the rev counter to detect them.

To transfer the power to the road equally smoothly the 750i is equipped with ASC. BMW's Automatic Stability Control.

It ensures you have traction at all times, by adjusting the engine output if it detects the merest difference in speed between the front and rear wheels.

This concern for your well-being continues inside the car. The sports seats are made of the finest Nappa leather and can be adjusted electronically.

While to ensure that good relations between driver and passengers prevail, separate air conditioning is provided.

What's more, the electronic power steering is road speed related, so it proves equally responsive whether cruising down the motorway or easing into a parking place.

The final words on the subject belong to 'What Car?' "BMW's new 750i comes tantalisingly close to Motoring perfection."

A remark that was elicited without recourse to any big stick.

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## UK NEWS

# Group of Northern Ireland's teenagers learn a lesson in tolerance

**A** GROUP of teenagers are having a history lesson in Hazelwood College, north Belfast - an area rent by sectarian violence in the past 20 years.

The lesson is about the trouble; the emergence of the Civil Rights movement in 1968 in response to the deepening discrimination against Catholics, the Protestant reaction and the ensuing violence which led to the intervention of the British Army.

Hazelwood's headmaster is a Methodist. The history teacher, Ms Eileen Lenihan, is a Catholic. The pupils are 55 per cent Catholic and 45 per cent Protestant. Among the teenagers, there are some who play in the bands of the Orange Order and others who go to mass on Sundays.

Ms Lenihan begins her lesson by distributing quotes from Protestant and Catholic politicians before encouraging her pupils to participate in a lively debate on why the people of Northern Ireland acted as they did in the late 1960s.

Not so many years ago, the idea of Protestant and Catholic schoolchildren, sitting side by side, sharing their views on a subject as traditionally partisan as the troubles would have been dismissed in Northern Ireland as an irresponsible idiosyncrasy. In 1989, in north Belfast, Protestant and Catholic children were on opposite sides of the barricades.

Today, however, Hazelwood

**Jimmy Burns on**  
how Ulster's  
growing number of  
integrated schools  
have become part  
of a package of  
government reforms  
aimed at reconciling  
the Catholic  
and Protestant  
communities

College is one of a growing number of integrated schools which are being promoted by the Government as part of a bold strategy for improving community relations.

Part of this strategy is the gradual introduction throughout Northern Ireland's educational system of a curriculum aimed at encouraging reconciliation between the Catholic and Protestant communities.

An emphasis on integrated schools and a new curriculum forms part of a package of reforms contained in the Government's Education Order (Northern Ireland).

The new curriculum focuses on subjects such as history, religion and literature, which in the past have tended to reinforce sectarian prejudices from an early age.



Playtime: pupils at Hazelwood College, an integrated Belfast school, free of stereotyping

The Government's draft education programme is called Education for Mutual Understanding. One of its objectives is that, by the age of 16, "pupils should develop a knowledge and understanding of conflict in a variety of contexts and of approaches to its resolution by non-violent means."

The author of the draft, Mr Jonathan Barton, is a lecturer in history at Belfast's College of Business Studies. He said

the new curriculum was an attempt to force both sides to look at each other's traditions and to see that "each has value and each has validity."

Mr Tom Rowley, principal of Hazelwood College, said the school's "hidden curriculum" was to develop "an ethos based on altruism, justice, democracy, openness and unconditional acceptance". He added:

"We believe it is the function of the school to lead society, not simply reflect it. We therefore feel it necessary to deliberately construct a multi-society based on their values, attitudes and morality of a society that does not exist in Northern Ireland."

Critics of integrated schools say that there are only worthwhile in middle-class areas where parents whose children have been unable to qualify for grammar schools (the selective 11-plus examination is still

widely used in Northern Ireland) choose a socially acceptable experiment instead.

Hazelwood was opened in a working-class area which suffers from a high rate of unemployment. It is flanked by Catholic estates on one side and Protestant estates on the other, like a crack in the middle of a sectarian jigsaw. Within the area, there have been more than 20 political murders in the last two years.

Attempts by Hazelwood to tackle objectively the controversial topics in Irish history, such as the Plantation of Ulster and the 1641 Rebellion, to investigate the writings of Catholic playwrights such as Sean O'Casey, with Protestant students and to develop a reflexive studies programme of common Christianity, moral education and comparative religion, have not been trouble-free.

Since the school's official opening in 1986, pupils at Hazelwood have, on occasion, been attacked by children from Catholic and Protestant schools and their cars vandalised. Mr Rowley said: "We have experienced hostility, less and less from representatives of the existing system."

Dr Brian McNamee, Northern Ireland's Education Minister, believes that by developing an enlightened generation, the new education programme could facilitate, in the medium to long term, the kind of consensus which older politicians

choose a socially acceptable experiment instead.

However, his education programme is facing hostility from both sides of Northern Ireland's historic religious divide. Until now, the majority of Protestant children have attended controlled (state) schools while their Catholic counterparts have attended maintained (church) schools.

The struggle is that the Government's decision to give integrated schools public money for all running and capital costs will put Catholic and Protestant schools at a financial disadvantage and undermine what is perceived as a genuinely religious education.

While the issue of integrated schools remains controversial, there appears to be a wider acceptance of the Government's curriculum proposals so far as they seek to instil a broader definition of historical truth and Irish culture.

The official emphasis at St Louis's is on keeping a sense of normality in the middle of a violent environment - last month three Catholics were shot dead by the security forces just around the corner from the school entrance - and maintaining high educational standards so that pupils are given a better opportunity to enter the labour market.

The school also independently pursues its own education for mutual understanding by organising visits to Protestant schools and joint holidays.

Its own curriculum is both broader and more flexible than the religiously-biased education offered by more traditional Catholic schools.

Given the background of the children we have here," Mr Johnston said, "we try and hand over backwards to see the point of view of the [Protestant] settlers."

Mr Johnston said that Prot-

estants could be bused into west Belfast but thinks such an option is politically and socially unrealistic.

He also does not share Mr Rowley's faith that the problems of Northern Ireland can be solved through education alone. "Protestant and Catholic children get on pretty well when they meet," he said, "but when they go back to their communities, the same stereotypes re-emerge... Religion has been an aggravating problem in Northern Ireland rather than a fundamental problem. The struggle is for jobs."

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## Brooke says there may be pause in Anglo-Irish talks

By Philip Stephens, Political Editor

**M**R PETER BROOKE, the Northern Ireland Secretary, indicated yesterday that a pause in the Government's meetings with the Republic of Ireland might provide the background for renewed talks between local politicians in Northern Ireland.

Speaking ahead of a meeting today with unionist leaders, Mr Brooke said that the unionists' demand for a suspension of regular contacts with Dublin under the 1985 Anglo-Irish agreement remained an obstacle to talks between Protestant and Catholic political leaders in the province.

Interviewed on BBC television's *On the Record* programme, he said that there could be a "gap" in those contacts, if that would pave the way for both sides in Northern Ireland to negotiate a new political settlement.

Mr John Hume, the leader of the mainly Catholic SDLP said on the same programme that his supporters would not accept a formal suspension of the Anglo-Irish accord - as demanded by the unionists as a precondition for talks.

The Northern Ireland Secretary appeared to signal that a lengthy gap between meetings - as occurred between May and September last year - might provide the basis of a compromise.

He insisted, however, that he would not be prepared to convene a meeting of the constitutional parties in the province unless there was a significantly better than evens"

Peter Brooke: hopeful signs make agreement possible chance that they would reach agreement.

Mr Brooke said he was reluctant to use the phrase "power-sharing" to define the ultimate goal of such talks but agreed that it provided a useful shorthand for a devolved administration which would distribute authority between the two communities.

Both the unionists and the SDLP had shown the will to break the present deadlock in his contacts so far, he said, but he stressed that hopeful signs still made a durable agreement a possibility rather than a probability.

His meeting today with Mr James Molyneaux, leader of the official unionists and the Rev Ian Paisley, leader of the Democratic Unionists, is expected to be followed by further contacts with Catholic leaders.



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## MANAGEMENT

**B**ehind a typically bland American facade, there is an underlying sense of anxiety at the Boeing Corporation these days.

Some of the old self-confidence seems to be ebbing away as the world's largest manufacturer of commercial aircraft is on the brink of taking a \$5bn-\$6bn gamble with the launch of a new wide-body twin-engine airliner, the Boeing 777. "Everybody knows the old phrase about betting the company financially every time you start a new aircraft programme," drawls Dean Thornton, the president of Boeing's commercial aircraft division.

But it is not just the size of the financial risk which is worrying the company. As well as myriad other internal problems, notably in its engineering and production, Boeing faces a huge market dilemma with the 777.

It openly admits it is lagging behind both the European Airbus consortium and McDonnell Douglas, its main American rival, in the rapidly growing market for large 300-350 seat medium to long-range airliners. At best, if the new 777 is launched in the next few months, it will enter service in 1995 at the earliest, two years after the introduction of the Airbus A330-A340 family and four years after the McDonnell Douglas MD11 tri-jet.

The question haunting Boeing is whether there is room in the market at this late stage for a new wide-body airliner. So far, it has failed to convince some of its longstanding customers, among them British Airways, to help launch the new programme with big orders. Last month, eight major US and international airlines were locked in tense talks at Boeing's Seattle headquarters to try to finalise the configuration of the new aircraft.

Although widely expected to be one of the airlines to "kick-off" the 777, BA emphasises that it is still keeping all its options open between the proposed 777, the MD11 and the Airbus A330/A340 for its 23.5bn fleet renewal programme involving about 30 wide-body aircraft.

Boeing is also toying with the idea of extending its current family of 747 jumbo jets with an even larger long-range jumbo. Thornton expects to see a bigger 747 "downstream in the 21st century." But aviation industry analysts are concerned as to whether Boeing can afford to invest in a 777 programme - with no guarantees of financial success - without putting at risk the future development of its 747 family, which is likely to entail a \$5bn investment.

The advent of a new generation of high-thrust engines developed by the three big engine makers (General Electric, Pratt and Whitney in the US and Rolls-Royce in the UK) to power future "stretched derivatives" of the A330 or the MD11 have further complicated the Boeing

## Competition in the aircraft industry

## The clouds close in on Boeing

Paul Betts and Roderick Oram examine the behind-the-scenes weaknesses and other problems plaguing the Seattle giant

dilemma. These bigger versions of the new Airbus and McDonnell Douglas airliners are likely to challenge Boeing's traditional dominance of the jumbo market.

The question for Boeing is whether it should go ahead with the 777 or whether it should abandon its smaller competitors the 350-seat medium to long-range airliner niche to concentrate all its energies in consolidating its position.

It would not be the first time Boeing has abandoned an ambitious project. After investing heavily in the 737 short to medium-range narrow-body airliner using energy-efficient unducted fan engines, the company abandoned the project because all oil prices fell it fell there was no longer a viable market for it.

The outcome this time will be dictated by Boeing's customers. "We'll launch the 777 if the market opportunity is there," says Frank Shrontz, Boeing's chairman. "We are some weeks away from taking a decision."

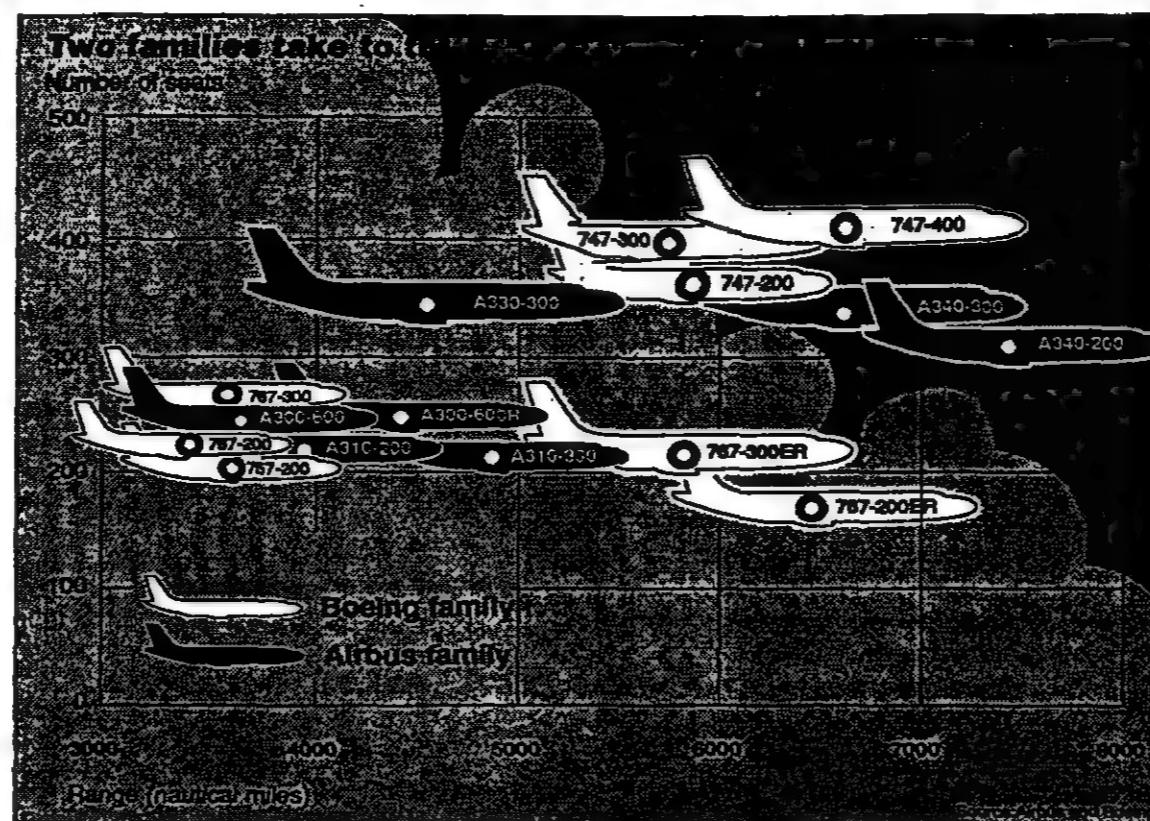
This crucial decision has become more difficult because the company has been shaken by a series of different problems which have led to a re-examination of the way it does business.

Although financially strong - Boeing reported a 5% per cent rise in 1989 net profits to \$973m and its firm order backlog stands at a record \$30bn - its defence-related activities, which account for about 30 per cent of the company's turnover, face an increasingly uncertain future. These operations lost \$474m last year, with the reduction in defence spending. Shrontz says it is inevitable that this side of the business will shrink.

"Our challenge is to downsize these activities appropriately to remain efficient and competitive. This is why we are putting a new organisation into place to centralise our defence and space activities," he explains.

Ironically, however, the biggest problems have emerged in the booming commercial aircraft side of the business. Bluntly stated, Boeing has failed its customers over the past few years. It delivered some aircraft late for the first time in two decades and others were marred by shoddy workmanship.

British Airways, for example, complained last year of "bogged" rivets and other airlines found a minor wiring mistake had affected 25 aircraft. US regulators have fined Boeing at least 14 times in the past four years for breaking rules on



quality and other issues.

The problems emanated from the company's culture. Over 75 years, Boeing had come to believe it had the ingenuity and resources to tackle any task almost regardless of its complexity. Since it had 60 per cent of the world market for airliners, it complacently believed that it could dictate the pace for introducing new technology.

"There has been the temptation to cruise on our past laurels. After all, we did have a successful formula and we did not have significant competition from Airbus," remarks Ardell Anderson, a senior Boeing executive. But like other leading US manufacturers such as Caterpillar, the construction equipment maker, which pored themselves into the bone to survive the high dollar and low orders of the early 1980s, Boeing found the old assumptions no longer worked when the good times returned.

The situation got out of hand on the new 747-400. Boeing originally meant the model to be a minor update of its 20-year-old and highly successful jumbo jet. But it kept

agreeing to each new idea some dozen airlines tossed at it. In no time it found itself committed to producing virtually a new aircraft in two versions - passenger and cargo - with three types of engine and loaded with new technology.

Boeing lacked the discipline to call a halt to the design changes. It ended up, for example, by offering 153 lavatory locations, some only an inch apart but each requiring separate airworthiness certification. Given the complexity and ever-changing design, starting up production of the 400 on the existing 747 line was a nightmare.

The problems were compounded by a huge influx of new workers (Boeing even had to borrow 600 workers from Lockheed to help it cope with its production build-up) coupled with a big turnover of the company's senior managers. Over the past five years, half of the company's top 400 executives have been promoted from below to replace a bulge of people retiring.

Some subcontractors fell behind schedule while Boeing was wrestling to break in a green workforce,

a result of its traditional hire-and-fire way of handling its boom-and-bust production cycles. At the height of the skill dilution in late 1988, some 60 per cent of the workforce on the 747-400 line had less than two years' experience.

Boeing also had problems with the introduction of new technology.

The company has always adopted a conservative approach to new technology, arguing, in the words of Phil Condit, the executive vice president of Boeing's commercial aircraft operations and head of the new 777 programme, that "in our industry, technology innovation has not necessarily led to market success."

But Boeing now concedes that Airbus has taken a lead in a number of technological sectors in the airline business. In turn, Airbus believes its aggressive approach to new technology has put considerable pressure on Boeing.

Shortly before last Wednesday's crash of an Indian Airlines Airbus

unleashed criticism that the European consortium might have pushed high technology too far, an

duction of new technology, flexible designs and "first time" quality demanded by the highly competitive world aircraft market. Hand-crafting and tinkering with each aircraft until it was perfect was a luxury Boeing and its customers could no longer afford.

Instead, it hopes new design, manufacturing and testing systems will conquer all those shortcomings. Computers will handle design work and produce three-dimensional models. It is trying to perfect manufacturing techniques so that parts fit first time and less skill is required on the assembly line.

It is also weeding out superfluous management tasks. In contrast to its old semi-autocratic ways, it is seeking to co-opt workers' ideas and enthusiasm under the slogan "continuous quality improvement". By 1992, its target production costs will be 20 per cent lower than in 1987.

"Our challenge is to meet a significant build-up of production and orders while keeping quality, schedules and costs under control," says Shrontz. "The execution of our existing business is key to our future success," he emphasises, adding that new acquisitions or diversifications were not priorities at the moment.

But he also acknowledges it will take time to introduce all the necessary changes inside the company. "We are a big bureaucracy with 162,000 people and it will take a lot of water to change the direction of the steamer," he remarks.

The 777 will be "a single expression of all the things we are trying to do," says Condit. Boeing is currently working with about eight airlines to catch up Airbus's lead in introducing electric signalling of flying controls in its A320 narrow-body airliners and in its new A330/A340 programme instead of the mechanical systems prevalent on current Boeing aircraft.

The workforce, supplier and organisational problems which hit the 747-400 spread to other airline programmes as the company increased production to meet booming demand. Output will have risen to 35 aircraft a month by the end of this year, almost triple the rate six years ago. "The world has never produced aircraft as fast as we've done," says Jim Johnson, who heads the Renton plant where the 737 and 757 airliners are assembled.

"We put a phenomenal load on the system," concedes Condit.

"Frankly, both in manufacturing and engineering, we were stretched pretty much to the limit," adds Ben Cosgrove, executive vice president of engineering. "We were the cobra swallowing the elephant."

The system was strained and so

were the workers. Boeing forced most of them to work up to 50 to 60 hours a week during 1988 and 1989 on compulsory overtime. Emotions started to run high in Boeing plants, and last autumn finally boiled over into a 48-day pay strike.

But Boeing reacted swiftly. During the past nine months, it has worked hard to bring its production programmes back on track and address the quality issues of the past two years. It believes these problems are now behind it. Moreover, it is also starting to benefit from the far-reaching changes it began making four years ago to the company's corporate culture, management and production practices.

At that time, the company started to realise that Boeing's old ways could never bring lower costs, higher productivity, speedier intro-

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## CONTRACTS &amp; TENDERS

## AEM

AZIENDA ENERGETICA MUNICIPALE DI TORINO  
(Public Electrical Utility)

TURIN

## INVITATION TO TENDER

An invitation to tender for a supply and service contract for the construction of a supplementary auxiliary heat-producing station in the South-Turin heating network.

## 1) ORGANIZATION CALLING FOR TENDERS: "Azienda Energetica Municipale di Torino", head office at 48 Via Berlenga, CAP 10122 Turin, Italy, tel. 011/55491.

## 2) AWARD PROCEDURE: in accordance with law no. 584 of 8/6/1977 and subsequent amendments.

Tenders to be submitted in accordance with the principles set out in Part 24, paragraph 1, of the law.

The most advantageous tender determined on the basis of factors of evaluation applied in conjunction in the following decreasing order of importance:

a) price;

b) characteristics and efficiency of principal components of supply;

c) values of gas efficient emissions and noise levels;

d) compliance with AEM general specifications and standards.

The preliminary estimate of costs to be performed has been calculated at a total of L. 20,000,000.00; the limit of increase above which tenders will be regarded as unacceptable is a maximum of 20% of this amount.

## 3) PLACE OF PERFORMANCE OF WORKS: a site within the district of the AEM steam power station situated in the Commune of Moncalieri (prov. of Turin).

4) CONTRACTOR: the contractor of a supplementary auxiliary heat-producing station in the South-Turin heating network in accordance with AEM provisional plans and specifications. In broad outline as follows:

a) steam generators for supplementary auxiliary heat production, of thermal power 40 Gcal/h each, capable of combustion of methane as primary fuel and heavy fuel oil as auxiliary fuel;

b) intermediate heat exchangers, such as pump loops, fuel and water tanks, interconnecting pipes, heat-exchangers, fuel-oil pressure unit, methane decompression chamber;

c) equipment comprising electrical transformation and power system and control-room regulation and automation;

d) equipment comprising demineralization system, capable of meeting the needs both of the Moncalieri station and the heat conveyance and distribution networks;

e) civil works to house steam generators, a pump loop, intermediate heat exchangers, a building to house demineralization and filtration systems, a chemical laboratory and complementary offices;

f) bases for steam generators and installations for the connection thereto, including the construction of roads and drains;

g) a chimney with three steel flues 70 metres high.

5) COMPLETION DATE: subject to the issue of building permission by the Commune of Moncalieri, work must be completed by September 1991.

6) FUNDING: the project will be funded with a loan from the "Cassa Depositi e Prestiti" using postal savings.

## 7) SUBJECTS ENTITLED TO TENDER: firms, including associated firms or those who declare their wish to associate in accordance with arts. 20 et seq. of law 584/77, Italian companies, foreign companies, combined or otherwise, and consortia of companies referred to in art. 6 of law no. 80 of 17/2/1987.

## 8) TERMS AND CONDITIONS OF SUBMISSION OF APPLICATIONS FOR TENDER: applications for tender - in the Italian language - drawn up on stamped paper addressed to the AEM headquarters at 48 via Berlenga.

THE GENERAL MANAGER  
(Dr. Arch. Giovanni Surdo)

THE CHIEF FINANCIAL OFFICER  
(Dr. Guido Pignocchino)

WANDSWORTH BOROUGH COUNCIL  
phase 3B of Major Environmental Improvements at

Doddington Estate, Battersea, London SW11

Main contractors wishing to be considered for selection to tender for environmental improvement works at the above mentioned estate, comprising fifteen high and low rise Jasper system-built blocks containing 964 occupied flats and maisonettes, should submit names to the Chief Executive and Director of Administration, Room 111, The Town Hall, Wandsworth High Street, London SW18 2PU by 23rd March 1990.

The Phase 3B contract involves improvements to four existing blocks comprising approximately 236 dwellings, together with adjacent hard and soft landscaping within the centre of the estate. The work includes the installation of replacement bay and plain windows, preparation and external decoration of concrete surfaces, removal of link bridges and construction of new stair/lift tower, new stair/entrance enclosures and security works, internal staircase redecorations, garage conversions and associated mechanical and electrical services.

All applicants must provide the following information:

a) the full name of the company wishing to be considered for tender;

b) details of labour force, plant, and technical and supervisory staff;

c) names and addresses of three technical referees for whom similar work has recently been completed;

d) a copy of the Company's latest audited accounts which should not be more than 18 months old;

e) the name and address of the Company's banker;



## FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 8HL  
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Monday February 19 1990

## Japan after the elections

**THE RETURN** of the Liberal Democratic Party to power in tolerable working order demonstrates that change in Japan is not going to be politically led. This may disappoint the rest of the world, especially the US in its current mood, but it is a reality that has to be accepted. Japan is, after all, a sovereign country.

The LDP won the election because of the perceived lack of realistic choices. The orgy of self-inflicted wounds of the last two years, for which it was properly chastised in last summer's Upper House elections, paled into insignificance in the main event on Sunday against the inadequacies of the alternatives. The Japanese may be changing, but they still know on which side their political bread is buttered.

This means that the politics of Japan will continue to be dominated by a conservative, mostly insular, business-oriented party. There are signs that younger LDP MPs are becoming more interested in policy substance than merely retaining power, but it would be an exaggeration to say that some kind of revolution in attitude is in the offing. An early test will be on economic policy: fiscal policy may be paralysed with the upper and lower houses in different hands, as in the US, leaving monetary policy at the only lever.)

Mr Toshiki Kaifu may or may not survive as Prime Minister. But even if he goes, the mould will not be broken. In any case, too much importance is invested in the identity of the chief office-holder. It may be lamented if the baton passes back to the ancien regime, in the person of Mr Shintaro Abe, but in Japan more than in most places politicians mostly play only an assigned role.

### Leadership quality

In an age when the quality of individual political leadership – Gorbachev, Thatcher, Walesa, now Mandela – has made such a difference, Japan remains something of an anachronism. But it is worth remembering that it has often not conformed to western standards. It is not writh in stone that it must have energetic political leadership.

Nevertheless, it is widely perceived that Japan's

immensely powerful economic role still lacks a political dimension that would make it a full partner. This is particularly frustrating for the US, where public and political opinion is progressively identifying economic Japan as the main threat now that the Soviet Union's military menace has rapidly declined.

### Misplaced obsession

This US obsession with Japan is misplaced. But it is going to be, in the immediate future, as much of a political reality for Japan to handle as Japan's own political statism is for the US. Japan may argue, perfectly correctly, that it has done all the US wanted in financing the US deficit, stimulating its own economy and, now, in reducing the size of its trade surplus, but this will still cut insufficient ice if prime American commodities, like Rockefeller Plaza and Columbia Pictures continue to fall like ripe plums into Japanese hands.

What Japan should do to combat this – and any parallel emerging sentiments in Europe – is to pursue a sophisticated, multi-faceted external foreign and economic policy less hung up on the relationship with the US. It should settle its outstanding problem with the Soviet Union; it should support, but not be seen to submit to narrow commercial benefit, the reconstruction of eastern Europe; it should be more active in the multilateral financial institutions; it should develop its international philanthropy; it should continue actively to be engaged in the development of Asia. In short, it must live up to its international obligations – and it can no longer plead political paralysis as an excuse for not doing so.

Such a broad-spectrum engagement, which means the making of new friends and different ties with old ones, might in time negate the perception of the Japanese peril. It would also recognise the reality of Japan as a major force. In return, the US and others must accept, first, that the election result in Japan is basically reassuring to their interests and, second and more vitally, that Japan is not only represented by its political system.

## Engineers under attack

**BY REJECTING** a 37-hour working week in return for changes in working practices, strikers at British Aerospace's plant in Preston have brought the engineering unions' long drawn out campaign for a shorter working week to a critical stage. If the group retreats from its insistence on extensive changes in working practices, smaller companies that are next in the firing line will be seriously exposed.

Engineering companies are for the moment weathering rising labour costs and slowing output better than most other sectors. Smiths Industries, one of the first companies to concede a shorter working week after being hit by a strike, announced a 15 per rise in profits in November.

But most of the 37 shorter working hours deals which have been concluded so far allow for time reductions to be phased in during the next two years. Over that period, cost pressures are almost certain to increase. The unions have enthused most about those deals which are vaguest about productivity gains in the future, and BAE's unpopularity suggests that it is taking more account than its competitors of cyclical swings over the longer term.

The unions have objected to conceding new working patterns, and to changes in job content in return for shorter hours. For its part, BAE has proposed a four-shift working pattern at Preston as well as more self-inspection by craft workers. These changes would hold out the promise of real productivity improvements.

### Campaign impasse

The vote by workers at Preston means the unions' campaign has now reached an impasse. Funds for the strike pay that has enabled BAE workers to remain on strike with some equanimity have been sapped by the campaign's length and the company's determination. Despite fierce noises, the unions have not yet opened a second front in other large engineering groups.

Yet the unions have been more successful than many employers had anticipated ahead of the event. They have secured a 37-hour week for

power-politics are in vogue at London's International Stock Exchange. Not that the Exchange is unused to political processes – one of the main things holding it together is its byzantine structure based around 50 odd committees and the arterial network through which power and influence pulse like blood.

But what is now emerging is of a different order from the small change of daily political life. In short, the Exchange's single most powerful committee appears to be out to stampede the powers-that-be into a strategy for the next decade.

At issue is London's role in the European equity markets. With the UK securities industry bleeding from overcapacity in its domestic market, the proposals being put forward amount to nothing less than an attempt to rebuild a strong London base and, from there, develop a foothold in the expanding equity markets on the continent.

The architect of this is Mr Nigel Elwes, the chain-smoking finance director of Warburg Securities who operates from a cramped box of an office deep in the heart of the firm's Broadgate residence. Mr Elwes' brief, the Domestic Equity Market Committee (DEMC), includes representatives of some of the City's major investment houses, among them James Capel, Barclays de Zoete Wedd, Smith New Court, Kleinwort Benson, Morgan Stanley, County NatWest, and UBS Phillips & Drew. Coming from such a base, the committee's views are likely to carry considerable clout when the Exchange's governing council gathers to consider them on March 1.

The committee begins from a simple premise: the Exchange exists for the sake of its members, but has become in many respects irrelevant to them. The penalty for irrelevance is clear – fragmentation of the central equity market, leading eventually to a withering away of the Exchange.

Unlike the pre-Big Bang days, when business was done on the market floor, members no longer have monopoly access to the market's price makers (formerly known as jobbers). With quotations and prices at which trades have been done now publicly available, the role of the market's intermediaries (brokers) has been undermined.

Also, under the Financial Services Act, a new body – The Securities Association – has taken over the control of securities firms' conduct of business and capital adequacy. As the Elwes report notes, customers no longer need "to look solely to the Exchange for fair play," and securities dealers do not need to join the Exchange.

Alongside these structural changes, and the arrival at the Exchange of international houses, loyalty to the old ways has disintegrated. The report concludes that there are now just two benefits to being a Stock Exchange member: the ability to trade in a regulated market with a market maker at a quoted price, and the ability to settle business through the Exchange. The fact that London's paper-based settlement system is one of the most out-dated around undermines at least one of these "benefits".

Mr Peter Rawlins, the Exchange's recently-appointed chief executive, is well aware of these problems and has been working towards a strategy himself, which is due to be made public before Easter. Should he have any doubts, the Elwes committee has now pushed three ideas under his nose for consideration.

Together, they represent a grand vision of a London-based exchange dominating Europe for the greater glory (and profit) of its members. Whether they are technically – let alone politically – achievable is something the authorities will no doubt be pondering at this moment. But above the general murmur of dis-

quiet, they occurred. This gave the market a breather, but was a clear retreat from the Big Bang ideals.

It is against this background that the Elwes group has now come up with a complex series of proposed alterations to the way business is conducted on the Exchange. It is recommended read like a mechanic's description of a 10,000-mile service for a car, and are about as interesting to the general reader.

But stapled to this technical brief is a strategy paper which goes far beyond the Elwes committee's brief and which challenges the Exchange's ruling council – and indirectly, its chairman and chief executive – in a startling way. The paper, which is likely to be detached before a simplified version of the Elwes report is published next month, lays out a three-point strategy which in significant places runs counter to the significance expressed publicly by the chairman, Mr Andrew Hugh Smith.

The Elwes plan has three legs:

- The Exchange should develop a single systems interface with all its

member firms. According to the Elwes report, firms currently believe that "the Exchange's systems are in places outdated, unnecessarily complex, duplicative and costly; and that such access mechanisms as do exist between firms and the Exchange do not provide satisfactory links to the full range of market services."

Unless these problems are overcome, firms will seek other ways of executing and settling bargains, to the detriment of the Exchange.

The answer is a single electronic "gateway" to the market, through which firms would be able to obtain prices, deal, confirm and settle bargains. This so-called Markets Access Service would deliver the whole array of Exchange products, from the news service, Topic, through to the yet-to-be-developed Taurus automated settlement system.

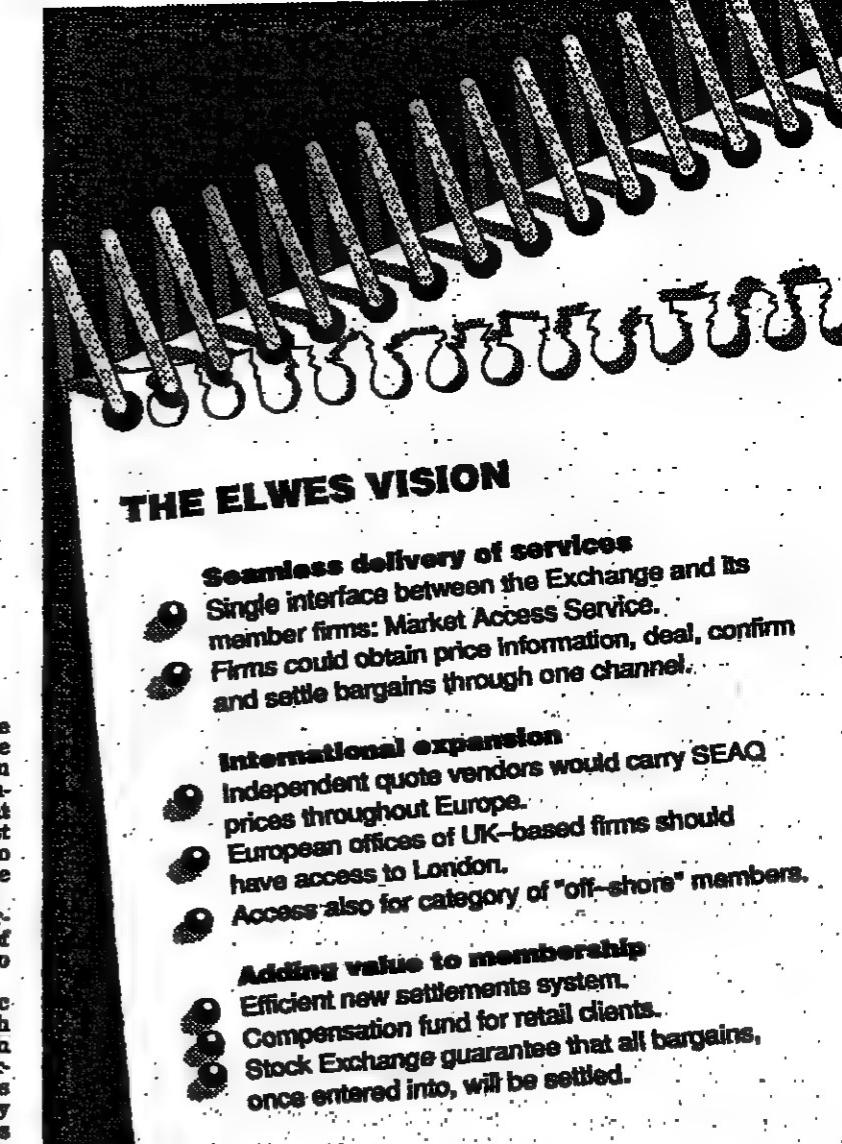
The effect would be to tie the Exchange and its members together in an on-line system. The idea is sound in theory, but given the likely cost, and the fact that member firms are likely to be grappling for some time with major systems developments related to Taurus, it could prove hopelessly idealistic.

Critics also claim that it is out of touch with the way business is done in London, and is more suited to a small provincial broker looking for a complete package of services from one source than an international trading house tied into a range of clearing services, quote vendors, news services and the like.

• The benefits of membership of the Exchange should be enhanced. The committee suggests four ways of reversing the shrinking value of membership, besides the development of Markets Access Service.

The first, and most fundamental, step is to make sure that the market is "as efficient and cost effective as possible so that alternative markets will always be less attractive." A major element of this involves developing the Taurus settlement system – something which Mr Hugh Smith said earlier this year was his first priority. Elwes warns that the Exchange should "retain an adequate control of the settlement of its members' firms' bargains" – an outright difference of opinion with Mr Hugh Smith, who has already said that the Exchange will retain only a (substantial) minority holding in the City's planned independent clearing house.

The second recommendation is more radical: the Exchange should "in due course" be able to guarantee all business executed through it. If achieved, this would mean that all member firms and their clients would know when dealing through the Exchange that they would not suffer loss in the event of the insolvency of the other party – a strong selling



### THE ELWES VISION

**Seamless delivery of services**  
Single interface between the Exchange and its member firms: Market Access Service.  
Firms could obtain price information, deal, confirm and settle bargains through one channel.

- **International expansion**  
Independent quote vendors would carry SEAC prices throughout Europe.
- European offices of UK-based firms should have access to London.
- Access also for category of "off-shore" members.
- **Adding value to membership**  
Efficient new settlements system.
- Compensation fund for retail clients.
- Stock Exchange guarantee that all bargains, once entered into, will be settled.

point for the market.

The third step to adding value to membership would be the creation of a compensation fund for retail clients. And the fourth step is to reinforce the Exchange's rules governing the way business is done and tightening up the disciplinary process when these rules are broken. This reflects a concern among some large firms that the Exchange is simply not tough enough on malfeasance.

In addition to these developments, the Elwes committee argues for a fundamental shift in power at the Exchange. Each of the four market committees, it says, should have overall responsibility for determining their services, operations and developments and for control of their costs, and their revenues." This would include responsibility for market rules and regulations, especially those governing market supervision and discipline.

This would amount to an unbundling of the Exchange, with the large central divisions being broken up and handed over piecemeal to the practitioners: in short, the death of the old Exchange bureaucracy, and the emergence of what is claimed to be a market-led organisation. This radical idea is roughly in line with views expressed in the past by Mr Rawlins, the chief executive – although there are likely to be disagreements about the extent of central control over the way the markets are run.

• The third leg of the Elwes strategy is the one that runs directly into conflict with the views of the Exchange authorities. The committee says the Exchange should break off discussions about the setting up of a continental-wide "Euromarks" or "Common European List" of major stocks, and instead adopt a policy of domination.

The Exchange itself has been dithering on this issue. It is aware on the one hand that in Seac International, its international equity price quotation system, it has a market-leader

with which it might be able to dominate the European equity business. There are those at the market arguing that it should not squander this competitive advantage – particularly since other European exchanges are developing rapidly, and competition is also threatened from across the Atlantic in the shape of the Washington-based Nasdaq electronic market.

On the other hand, it realises that to attempt to do so would antagonise the authorities of the awakening equity markets in Paris and, particularly, Frankfurt. While the UK may have a historic advantage, there is no reason to assume that it will act as the major channel for capital flowing into European equities in the future. Outright competition may not be in London's best long-term interest.

The Elwes recommendation is to take the London market aggressively to the continent. This would be done through three channels: independent quote vendors would carry Seac prices, the overseas offices of member firms would be able to plug into the market through the Market Access Service, and a new category of "off-shore" member would be created to draw firms based outside the UK into the market's net.

This, in the words of one Exchange executive, is "half-baked". The fact that the idea has been put forward by a group of people grounded in the domestic UK market with no involvement in international developments is likely to make it particularly galling to the authorities – as is the fact that it has emerged in public, while the Exchange is developing its own European strategy behind closed doors.

How it tackles this proposal is something that will be occupying the minds of the Exchange's senior executives over the coming weeks. But one thing is clear at this stage: the Exchange has no intention of bowing down before a committee, even of its most powerful members.

## King's call to the Bank

**By appointing Professor Mervyn King, Professor of Economics at the London School of Economics, one of its 12 non-executive directors, the Bank of England will be able to draw on the talents of one of the few economic economists in Britain to straddle successfully the worlds of economics and finance.**

King is a youthful looking 41-year-old who has taught in both the US and the UK. He is co-director of the LSE's Financial Markets Group and has written books on finance, taxation and corporate behaviour.

Until recently, he was also an independent director of The Securities Association, one of the self-regulating organisations set up to police the City under the Financial Services Act.

King will be a Bank director from March 1. The Bank's gain is the Treasury's loss. He was a member of the Group of Outside Economists that gave unofficial advice to Nigel Lawson, the former Chancellor, and is credited with considerable influence on some of the technical tax changes introduced in the last budget. However, this group – known rather unkindly as the Goons – has been wound up since John Major moved into Number 11 Downing Street.

The summons to the Bank came out of the blue on a scribbled note delivered in the middle of a lecture at the LSE. It was only when King met the Bank Governor, Robin Leigh-Pemberton, the following day that he was told of the appointment.

### American aid

Curiously, Americans seem to be taking over Media 92 – the French-inspired EC project designed to promote European film-making and to limit the number of Hollywood shows

## OBSERVER

on European TV and cinema screens.

It was revealed at the Berlin Film Festival, which ends this week, that the main sponsor of Euro-Aim – the sub-section of Media 92 for film producers

– is none other than the US firm, Apple Computer. Apple is providing nearly a third of Euro-Aim's annual budget of about ECU 3m (£2.1m); another third comes from Media 92 and a final third from EFTA countries such as Sweden and Switzerland. The President of Euro-Aim also turns out to be an American – Ms Karol Kubik.

Media 92 is hoping to get ECU 250m from the EC over the next five years, but despite French enthusiasm for combating American cultural imperialism the British and Germans are not quite so keen on foot-ing the bill. Perhaps Media 92 should ask Warner Brothers for the cash.

### Handel's home

• The D-Mark may be a highly desirable currency in East Germany's tottering economy, but there are some areas where it is still politely declined.

In Halle, where Hans-Dietrich Genscher, the West German Foreign Minister, gave a pre-election speech to a rousing reception from nearly 70,000 people on Friday night, our correspondent later decided to take a look at the birthplace of another famous son of the town – Handel.

Although he spent most of his life in England, the composer was born in Halle 365 years ago. The town is now at the centre of a depressing, smoke-belching chain of chemical factories. The house of his birth is a museum, recently restored by the East German Marks et al.

It seemed appropriate to buy a record of the great composer Grossi as a tribute to the man who gave the world Handel.



"It could end up as the world's longest underground sidebar."

ute. But on trying to pay with D-Marks, worth several times the value of the East Mark, our man was told this was not possible. "We are not allowed to take them," said the young lady in the museum with no hint of regret.

This must be one of the last outposts of the old East German orthodoxy. In the big hotels the rule is one-for-one. Our correspondent had to pay DM150 (50p) for a tiny, noisy, dismal single room with a panoramic view across the main motorway and tramway to an outlying mass of apartment blocks and smoking chimneys.

In local currency, that is worth at least 450 East German Marks.

East Germany's Interhotel chain, soon to link up with a successful West German hotel company, does not accept East German Marks et al.

### Packed

• An exhibition to look forward to: Sardine Tin Labels from Norway in London in May. Apparently they were very popular at the turn of the century and collected by Norwegian children as other people collected cigarette cards.

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**That's BTR**

# FINANCIAL TIMES

Monday February 19 1990



HOMES • PROPERTIES • CONSTRUCTION

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## Moscow takes off its ideological spectacles

Quentin Peel and Martin Wolf meet Mikhail Gorbachev's personal economic adviser

**PROFESSOR Nikolai Petrakov**, the recently-appointed personal economic adviser to Mr Mikhail Gorbachev, remains committed to the total transfer of the Soviet economy to a "normal market economy."

In an interview with the Financial Times, he spelt out his uncompromising dedication to radical market-oriented reform, including the destruction of the whole system of industrial ministries, the creation of a capital market, price liberalisation, the breaking up of state enterprises along with an anti-monopoly policy, and the introduction of a fully convertible parallel currency.

Professor Petrakov, who joined the three-man team of personal aides to the President last month, acknowledged the contrast between the fast pace of political democratisation, and the unimpressive rate of change in the economy. He blamed this on the "ideological spectacles" which had made it impossible to consider such radical ideas when Mr Gorbachev came to power in 1985.

The whole task of perestroika had been made far more difficult by the initial commitment to a huge expansion in investment under the slogan of acceleration, which had seriously unbalanced the economy, he said.

Change only began with the plenary Committee in June, 1987, following which new laws on state enterprise and operations were introduced.

Conflicts then emerged between the liberalisation of state enterprises and the continuing power of the industrial ministries, which are "Soviet super-monopolists," Professor Petrakov said. "If we don't destroy them, we will not be able to create a real market economy."

"These branch ministries are just genetically opposed to any sort of market."

He said the answer was to create a fully-fledged capital market, including a stock market, to decentralise investment decisions. "We should turn all state property over to shareholders, and create a stock exchange. Maybe at the beginning this role could be carried out by the banking system, including commercial banks."

Creating a capital market was a bigger challenge than balancing the consumer market, which could be stabilised relatively rapidly. "We can introduce free prices, and thus balance supply and demand," he said. "Certainly, some prices will be very high, but these products will at least be available on the shelves of the shops."

Price liberalisation would be imposed without a wage freeze, and a halt to printing excess money - he cited the official estimate of "unsatisfied" consumer demand of Rs165bn (\$276bn), or some 40 per cent of annual consumer

automobile several years ahead. He went beyond official policy by recommending that 70 per cent of new flats be sold on a co-operative basis - instead of 15 per cent as at present. However he warned that a free market in property would be dangerous as long as criminal groups had large volumes of cash to "launder."

He reiterated his long-standing support for the idea of a parallel hard-currency rouble, specifically for foreign investment and to promote trade. He recommended that all Soviet foreign exchange reserves except the amount needed for essential state imports such as medical supplies, should be used to back this new currency. Soviet enterprises would be free to purchase the currency against soft roubles in a free market.

Looking ahead, Professor Petrakov saw the greatest difficulty as the lack of competition in the economy.

He said "organisational monopolies" such as Aeroflot and Tsvostur should be broken up at once. However, Soviet "gigantomania" had created many "technological monopolies" which could only be controlled by an active anti-monopoly policy, including price control and the introduction of new competitors, including foreign ones.

## GM overtakes Ford in European profits

By Kevin Done, Motor Industry Correspondent, in London

**GENERAL MOTORS'** European operations achieved record net profits last year of \$1.25bn, confirming the financial transformation achieved by the world's largest vehicle maker in Europe in the late 1980s.

Ford was one of the few car makers to remain profitable in Europe throughout the 1980s but is now being outperformed by its arch US rival.

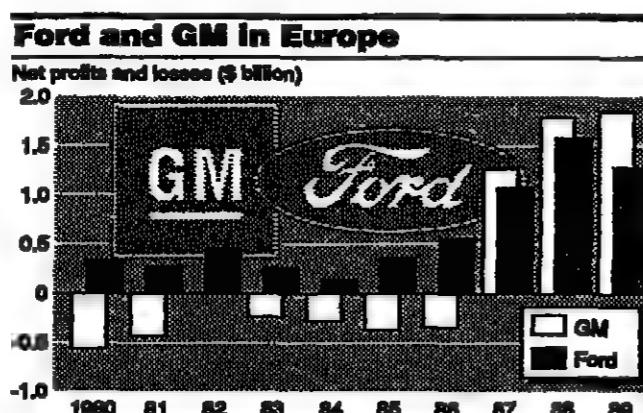
While GM's European profits rose 2.8 per cent last year, Ford's net income in Europe dropped by 17.5 per cent to \$1.25bn from the record \$1.65bn achieved in 1988.

Even so, last year's profit was still Ford's second-best result in Europe.

With their core North American automotive operations facing considerable financial problems, GM and Ford have both become dependent on profit flows from Europe.

GM's European operations accounted last year for 43.8 per cent of total GM group net income of \$4.2bn, gained from only 15.8 per cent, or \$1.95bn, of its \$12.5bn worldwide turnover.

Ford's European operations represented 33.6 per cent of its \$3.8bn group net



income derived from 21.8 per cent, or \$21bn, of its \$86.1bn group turnover.

In the three years 1987 to 1989, GM Europe has achieved total net profits of \$4.87bn, in stark contrast to the \$3.2bn losses accumulated in the first seven years of the decade.

The 2.8 per cent increase in net profits last year masks a greater improvement in operating profits. Important parts of the GM Europe business began to pay corporation tax again last year - Vauxhall in the UK did so for the first time in 20

years. Ford said its European profits had fallen under the pressure of the costs of developing new models, primarily the new-generation Escort Orion to be launched in the autumn, as well as the new range of multi-valve engines to be produced at Bridgend in South Wales from mid-1991 as part of a \$725m (\$1.2bn) project. This is Ford's largest single investment in the UK.

Ford's European profits were hit too by unfavourable exchange rate movements and by an unfavourable product

mix, with higher sales of the new generation Fiesta small car, launched in early 1989.

GM emerged clearly as the fastest-growing volume car maker in West Europe last year helped by the success of its Opel Vectra-Vauxhall Cavalier, launched in late 1988.

Opel and Vauxhall car sales in Europe jumped 10 per cent to 1.45m, boosting the group's share of the West European new car market to 11 per cent.

Sales of light commercial vehicles rose 13 per cent to 95,500 from 84,400. Ford claimed 11.8 per cent of the European new car market with sales of 15,600.

GM's European car production rose by 11 per cent to 1,533,700 from 1,385,342 a year earlier, while production of light commercial vehicles rose by 44 per cent to 70,800, including a 15.3 per cent increase in van output to 34,900 by IBC Vehicles, the 60/40 GM-IHC joint venture in the UK.

Ford's European car production rose by 2.6 per cent last year to 1,612,400, a record level, while production of light commercial vehicles jumped by 12

per cent to 243,000.

## Asean condemns Khmer Rouge

By Lim Siong Moon in Kuching, Malaysia

THE international campaign to isolate the Khmer Rouge faction in Cambodia was boosted at the weekend when the Association of South-East Asian Nations (Asean) condemned the Khmer Rouge for past atrocities and said it must not be allowed to regain power by force.

This is the first time the ASEAN countries have attacked the Khmer Rouge by name.

The European Community persuaded ASEAN to take a stronger stand during talks at the EC-Asean ministerial meeting in Kuching. This is a significant development for both sides because EC and ASEAN states were among those that voted for the Cambodian opposition coalition-dominated by the Khmer Rouge - to retain the country's seat at the United Nations.

Debate over the Khmer Rouge's role in a proposed interim government has blocked efforts for a political settlement to the Cambodian civil war since the Vietnamese withdrew their occupation force which toppled the Khmer Rouge government of Pol Pot in 1979.

The joint ASEAN-EC declaration comes shortly before a meeting of the warring Cambodian factions scheduled for February 26 in Jakarta. Mr Ali Alatas, the Indonesian Foreign Minister, confirmed in Kuching that Khieu Samphan, a Khmer Rouge leader, had agreed to attend the talks and that Mr Javier Perez de Cuellar, the UN Secretary General, would send an envoy.

Much of the business between the EC and ASEAN ministers concerned trade and business relations. There has been a vigorous debate about the conditions for EC aid to ASEAN states, with environmental issues becoming increasingly sensitive.

At Malaysia's insistence the final communiqué contained the following qualification: "Environmental concerns should be a major issue but should not be used to introduce a new form of conditionality in aid and development financing."

However, ASEAN members have agreed to the EC's request for more efforts in ecological conservation.

The lack of economic consensus between ASEAN and the EC was underlined by a point in the declaration that calls for "a review of existing co-operation needed to chart the course of ASEAN-EC relations of the nineties."

ASEAN has also urged that future meetings should be attended by European economic ministers rather than foreign ministers.

ASEAN wants a commitment on preferential treatment of its agriculture and textile exports; the EC wants more dialogue preceding a comprehensive agreement on tariffs in the multilateral GATT discussions of the Uruguay Round.

By invoking the principle of "reciprocity", the EC could shake ASEAN's stand for equality.

But Mr Abel Matutes, the EC's Commissioner at the Kuching talks, said: "We apply reciprocity in the most liberal interpretation."

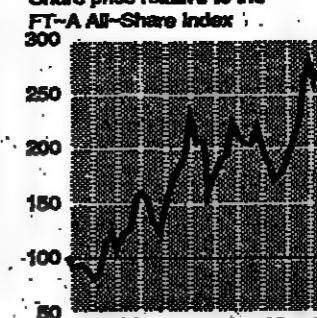
The principle so far covers services only and so does not yet rankle ASEAN as much as it will, for example, uniform industrial, agricultural, and health standards for goods entering Europe in 1992.

THE LEX COLUMN

## A dinosaur from the age of junk

BAT

Share price relative to the FT-A All-Share Index



ous worries about the country's future economic management.

The end of the three-week-old bank strike means that share trading can return to normal this week, and this will give a fair better clue to the market's direction. Private investors, as opposed to the institutions, will now be able to sell and the next few days will indicate whether the institutions, which are flush with cash, will be prepared to offset any selling pressure from this quarter. It is likely that they will.

Another uncertainty for the market has to do with the future of the implementation of the earlier tax reforms. The market's current multiple of just under 10 times 1990 earnings looks reasonable, but it is assuming the lower tax rate. The market needs reassurance that it is not going to look a lot more expensive.

### Hartwell

The old arguments about short-termism have come to the fore in the Saudi bid for the motor dealer Hartwell. The defending company, which has managed only 5 per cent compound earnings growth over the past five years, has been forced to rely on its defence on a property revaluation and a pensions surplus. But it argues that the property development programme has stood up shareholder value at the expense of short-term earnings, since interest has been charged to the pell-mell rather than capitalised.

A healthy cynicism among shareholders is understandable, since Hartwell's forecast of £12.4m pre-tax came shortly after a £2m lower from its own stockbroker. In the short term, the offer of 18 times prospective earnings looks generous. However, the current economic background

is not exactly favourable for motor dealers and Jameel's bid is only 10 per cent higher than the shares' cyclical peak in 1988. Since that point, Hartwell has acquired two dealerships which should boost profits substantially in the next economic upturn.

Although Jameel has already grabbed more than 29 per cent of the ordinary shares, perhaps the offer price is both not high enough for defending shareholders and too high for the bidder. Manufacturers do not like their dealerships being passed round and the Jameel group seems likely to lose about 10 franchises if it succeeds. That need not worry Hartwell shareholders too much - the offer is all cash - but it may discourage a bidding spree in the motor dealing sector.

### Chapter 11

As big US insolvency cases go, Drexel Burnham Lambert's filing under Chapter 11 of the federal bankruptcy code is rather old-fashioned: an apparently straightforward case of a genuinely insolvent company with no cash in the bank to pay \$8bn of debt. This is not a case like Manville in 1982, filing Chapter 11 to shield it from asbestos injury lawsuits, or like Texaco in April 1987, driven into Chapter 11 by its \$10.5bn of damages from Pennzoil. Nor does it resemble the Eastern and Continental Airlines cases, where Chapter 11 was a way of making it easier for management to rip up union contracts.

Yet to the extent that Drexel has no scope to do anything like that, it is hard to see how Chapter 11, rather than straightforward liquidation, benefits Drexel's creditors (besides the IRS, who get paid first). It is not just that investment banks have much less in the way of real estate, airport landing rights or solid market positions in basic industries than one sees in a railway or airline. There have been relatively successful Chapter 11 reorganisations of financial companies. Baldwin United went into Chapter 11 in 1983 as a life insurer, and came out three years later selling green

shares.

The point is that Chapter 11 is supposed to be used when an incumbent management simply needs a legal breathing space to restructure its debts, and put a fundamentally sound business back on the right track. It is hard to see this as an apt description of Drexel's

## Brokers offer rival strategy for London

By Richard Waters in London

THE MOST powerful interest grouping at London's International Stock Exchange is expected tomorrow to recommend a strategy for the market which rivals that being developed by the Exchange's senior executives.

In the first serious challenge to the authority of Mr Andrew Hugh Smith, Stock Exchange chairman for the past 15 months, and Mr Peter Rawlinson, the recently appointed chief executive of the Domestic Equity Market Committee, will vote on a series of proposals for overhauling the rules of the UK market.

The proposals, drawn up by a sub-committee under the chairmanship of Mr Nigel Elwes of Warburg Securities,

amount to a complete strategy for the Exchange, including how it should expand into Europe.

An earlier draft of the Elwes proposals provoked strong reactions at the Exchange. A senior executive denounced it as "politically naive."

The Exchange is concerned in particular about what the executive called the committee's "half-baked Euro strategy," which involves extending the market's reach to continental Europe in a separate competition with local markets.

The third and final draft of the Elwes report, which comes up for approval at tomorrow's meeting and a copy of which has been seen by the Financial Times, amounts to a direct

challenge to the market's senior executives.

The report acknowledges that there is still much work to be done on the proposals, but says the ideas, "if adopted in principle by the council, should be passed to the chairman and chief executive and should be considered in conjunction with their proposals to reorganise the committee structures and staff support of the Exchange."

If the council, which will consider the issues on March 5, follows the recommendation, it will be difficult for the Exchange's executive to shelve the Elwes suggestions.

The proposals are likely to conflict with those of the Exchange's executive on a

Continued from Page 1

The latest involvement of the Bank of England - it is understood to have hosted a meeting between Eurotunnel and its contractors last month about the time of the announcement of temporary financing agreement - underlines the deep concern felt by the British authorities about the project.

The Bank was instrumental in the appointment of Mr Morton as Eurotunnel's co-chairman three years. It has supported Mr Morton's tough approach over costs but has been dismayed at the way in

which differences with the contractors over costs have spilled over into bitter public rows.

Some of the 200 international banks which agreed originally to provide up to \$5bn of loans and standby credits to Eurotunnel had begun to question whether Mr Morton's combative style and continual wrangling with contractors was an asset or a liability.

Mr Morton's position, however, seems secure although he is expected to take a less public profile. As chief executive he would assume overall responsibility for the development of the tunnel including the construction of the project and who is

would be distanced, however, from day-to-day involvement with the management of the

known to have a difficult relationship with Mr Morton.

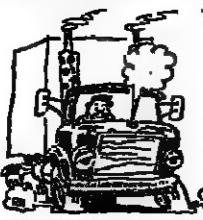


# FINANCIAL TIMES COMPANIES & MARKETS

Monday February 19 1990



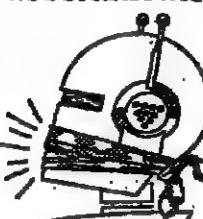
## INSIDE

**Big Mack hits troubled times**

Mack Trucks has taken a beating. A deep sales slump and extraordinary charges have resulted in a far bigger loss for the fourth quarter than Wall Street had expected; and hopes are not high for 1990, given the weakness of the US truck market. To help

improve its finances, Mack has agreed a deal in principle with Renault, the French motor group which has a 45 per cent stake in it, for a \$50m convertible subordinated loan. Roderick Oram reports. Page 21

**Perilous perch on the mezzanine**  
The demise of Drexel Burnham Lambert has cast a dark shadow over European finance — at least as far as mezzanine loans are concerned. This and the high-profile problems of some big debt-financed UK buy-outs have severely damaged the market in the thinning under-developed European equivalent of the junk bond market. Page 20

**Governments have it taped**

It is not surprising that central governments are aiming for "open" or industry standard computer systems because these are the items which eventually take a lesser financial toll on users. In this, governments set an example which commercial companies have been slow to follow. But that old bugbear — government red tape — still holds true. Archaic procedures are taking a toll on the imaginative uses of information technology. Reports Alan Cane. Page 34

**One for all and all for one**

Banco Hispano Americano of Spain and West Germany's Commerzbank have begun talks with Banco di Roma which could soon result in the three banks exchanging equity holdings. Hispano confirmed that the Spanish and West German banks had begun talks to try to position in Banco di Roma which would then enable better access to the Italian bank's information network and for all three banks to develop new banking products. Page 21

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Economics Notebook: UK rates policy takes hold

**London's bane is regional boon**

IT IS difficult to find much to cheer in the latest round of mortgage rate increases.

But if there is any consolation in the Abbey National's decision to lift its basic lending rate by a hefty 0.5 percentage points to 15.4 per cent, it is that it should help further to narrow Britain's North-South divide.

The process is already well under way. Mr Michael Howard, the employment minister, said last week that the largest falls in unemployment over the last year were in northern England followed by Scotland and Wales. The Government's tight monetary policy started to do the trick last year as the heavily-mortgaged south-east was the first region to feel the effects of higher mortgage rates and falling house prices.

The pattern has been exaggerated by last year's fall in the value of the pound and the buoyant state of Britain's export markets in Europe, which are sustaining demand for manufactured goods from factories concentrated in the north and Midlands.

Although the south-east may no longer be overheating, the legacy of strong growth in the late 1980s is painfully apparent in terms of congestion and the non-availability of labour. Government departments and private companies are still shifting operations to the regions as a result. One recent example was British Telecom's decision to move up to 8,000 of its managerial staff out of London to cheaper locations in the Midlands and north of England during the next seven years.

Finally, the uniform business rate — combined with the first revaluation of business property since 1973 — will push up business costs far more in the south than in the north. This may encourage some companies to relocate, although

**France calls time on the monopoly game**

**William Dawkins**  
reports on the little-known cartel watchdog which is making its presence felt

**S**enior executives in top French construction and electrical engineering companies are smarting under the impact of the largest anti-cartel fines ever imposed by the country's fledgling Competition Council.

The fines, a total of Ffr155m (\$30m) levied on 80 construction firms just before Christmas, followed by Ffr125m for 43 electrical groups last month, are the most spectacular evidence to date of the change in French competition rules introduced in 1986, but which has had relatively little impact until now.

Some of France's top corporate names, such as Bouygues in construction and Schneider in electrical engineering, were found guilty of fixing prices and conspiring to carve up major public contracts. It was embarrassing for them and may even change the way they do business with each other.

The fines were equally striking for France's European Community partners who — perhaps wrongly — thought Paris still had serious doubts about the benefits of promoting free competition.

These are the results of investigations which started two to three years ago. The 1986 reforms included an end to the post-war system of price controls, as well as the establishment of the Competition Council to catch and fine abusers of dominant positions. Even so, the Council is starting to have a wider effect than many observers thought likely.

The Council has previously been seen as an obscure body, devoted to defending small individual consumer complaints rather than the busting of cartels. This has dramatically changed, so that fines imposed by the Council — which can in theory go up to 5 per cent of a guilty company's annual sales — have rocketed from a mere Ffr2.5m in 1986 to Ffr155m last year.

The man at the heart of the Council is 46-year-old Mr Frédéric Jenny, a bearded business school graduate who talks with enthusiasm about his job. A former PhD in economics from Harvard, he was an adviser to Mrs Christiane Scrivenor, consumer affairs minister, under the right-wing administration of Mr Valéry Giscard d'Estaing, which in 1977 launched the Competition Council's precursor.



The Competition Commission, as it was known, was criticised for being toothless. Unlike the Council which succeeded it nine years later, it was unable to launch its own inquiries and had to wait for the go-ahead from the Economics Ministry.

Mr Jenny, the Council's rapporteur général, or chief inspector, as it were, likens today's Council to the West German Bundeskartellamt or the European Commission's competition directorate because it is politically independent and draws solely on national competition law for its rulings.

There is, however, a telling difference. Unlike the Bundeskartellamt or the Brussels Commission, the Council cannot independently open inquiries into potentially anti-competitive mergers. It can hit at abuses of monopoly power, but not at the creation of monopolies themselves. These are still the domain of the Economics Ministry, which must ask for the Council's advice but can, and does, overrule it.

The Brussels and Berlin merger control authorities are also sometimes overruled by their political masters. But the distinction reveals the extent to which the French Government must hold political control over mergers, for all the growth in economic liberal attitudes in the Socialist administration.

The split is echoed at the ministerial level, where Mr Pierre Bérégovoy, the finance and economics minister, has final say on mergers, while market rigging and abuse of dominant positions is the domain of Mrs Véronique Neefs, consumer affairs minister.

"There is still a lingering feeling among French bureaucrats in charge of industrial policy that economic concentration is necessary to ensure the competitive

monetary union between the two Germanys. Today or tomorrow, West German money supply and import price data are due for release.

Wednesday's US consumer price index is expected to reflect the weak health of the auto industry. None the less, the index which includes food and energy is likely to rise to 0.8 per cent, twice the rate of the previous month.

Today all government offices and cash markets in the US are closed for President Washington's birthday.

January's money supply figures are published in the UK tomorrow. They are expected to confirm that December's figures, which showed a surge in bank and building society lending to £10.3bn (£17.4bn), were buoyed by exceptional factors.

Mr Lomax's advice to the Government was simply to acknowledge the favourable regional effects of its economic policy. Presenting what is doubtless still a minority view among economists, he said: "This Government, and indeed any government, is within striking distance of announcing an end to the regional problems of the UK, as we have known them, and of taking the credit for a massive relative improvement in the prosperity of the provinces."

In a recent speech to the Institute of Economic Affairs, Mr Lomax argued that improved communications

Peter Norman

**A clear view into the financial abyss**By Anthony Harris  
in Washington

Washington's perspective

on the world is always

shortened; small

power manoeuvres inside the Bel-

tway, which are not noticed at all

beyond it, dominate the local

view. In a few weeks, though,

the picture has become not so much

distorted as fantastical.

Politics and power have gone

offshore. Despite the President's

endless diversionary fireworks,

it is clear that the US is of less

and less account. The "drug summit"

helped the media to forget that

the Vice-President met a humiliat-

ing display of turned backs

when he tried to make an

announced post-Panama tour of

Latin America. The immediate

neighbours are stand-offish, and

those across the Atlantic tend to

fix things up between them-

selves.

The result is not only that the

unimaginable happens every day,

but that Washington has quite

literally become hollowed out.

Residents can park in usually

cluttered streets, walk into res-

taurants which once had three-

day waiting lists, and spend the

meal wondering where everyone

has gone.

Into hiding, perhaps, for the

strangest spectacle of all is the

financial apocalypse which is

being revealed by increasingly

frequent instalments.

It is now clear that the savings and

loan market is only the beginning.

For example, one current set of pro-

cessions suggests that there was

an active conspiracy to use some

of the biggest S&amp;Ls, which were

themselves financed with junk

bonds, to collect brokered depos-

— financial "creativity" feeding

on itself.

The S&amp;Ls were thus used to

finance excessive corporate debt

now leading to bankruptcy out-

side the savings movement.

These bankruptcies are in turn

undermining the investment

portfolio of insurance compa-

nies and pension schemes. This finan-

cial catastrophe is being revealed

in slow motion, like a free fall in

a nightmare — and in an eerie

silence, since it is all too tech-

nical for the news programme.

However, the facts are clear

enough for anyone who under-

stands very large numbers — and

the number who do is actually a

very small number. We now

know that the savings and loan

debacle has swallowed at least

\$300bn of assets, loading an equal

volume of deposits onto the

national debt.

Values would have fallen fur-

ther except that the Japanese are

worried by the unmeasured abyss

left by their own credit boom.

All other markets are being sus-

tained at the moment by the

aesthetic silence.

## INTERNATIONAL CAPITAL MARKETS

### LEVERAGED BUY-OUTS IN EUROPE

**THE DEMISE** of Drexel Burnham Lambert and the collapse of the US junk bond market has brought on a bout of credit revision in the US. This and the high-profile problems of some big debt-financed UK buy-outs have severely damaged the market in subordinated or "mezzanine" loans, the thankfully under-developed European equivalent of debt in 1990 appears to be small and, in the UK, non-existent.

There is a division of opinion about whether mezzanine debt has a place in this new world. Certainly, where it is seen as a signal that the buyer has paid too much for a company, its prospects are not good. Investors will not buy concepts such as pay-in-kind mezzanine, which delay cash returns to holders, since it will usually be seen as a signal of overpaying.

Mr Rupert Wiles, a local director of si, the UK leveraged buy-out specialist, sees mezza-

nine as having a place, but only to enhance the returns of equity investors. It should not be there merely to allow buyers to pay over the odds.

He believes there will be a greater desire to see the vendor participate in the transaction by providing the mezzanine part of the deal. That taking on of subordinated loans by sellers used to be quite common UK practice.

The biggest holders of mezzanine debt have been the banks. As they shy away from senior debt, will they be interested in the riskier mezzanine? Only a few see bank interest in mezzanine, and that because it is available in smaller bites than the senior debt. Mr Wiles questions whether banks should have been there at all. "The wrong sort of investors have gone into the mezzanine," he says. Banks tend to over-react to losses; traditional equity investors handle them with

more equanimity. Yet, equity investors in the UK have never been convinced of the advantages of mezzanine.

But even if banks leave the market, there are still mezzanine funds, with spare capacity – in limited size in each deal – to invest in mezzanine finance. Kleinwort Benson recently established an £83m European mezzanine fund. Its general manager, Mr Erik Linnens, will have two 1989 investments to put in the new fund, but admits that the next deal may be tough to find. The others include Intermediate Capital Group, and Drexel's own First Britannia. Mr Keith Drexel, Drexel's managing director, says Drexel almost fully vested its share of the £200m fund. It is one third invested and still looking for business.

The largest player is probably GE Capital, subsidiary of General Electric Capital Corpora-

tion of the US. It suffered with its big mezzanine investment in the buy-out of the kitchen retailer Magnet that went wrong only months after it closed. Yet some outsiders think mezzanine may now be too insignificant for a company of GECC's size to bother with. With banks retreating from the senior debt, they could have an opportunity there.

The proof of the pudding is in the eating. One leveraged financing viewed as a market bellwether has been the syndication of loans in a \$717m financing for the leveraged buy-out of Swedish Match. That is going very slowly. J.P. Morgan, the arranger, has had to extend for two or three weeks the syndication period. Banks are worried about the asset disposals planned, and some are concerned by the sharp jump predicted in operating profits.

Stephen Fidler

### NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Avg. life years	Coupon %	Price	Book runner	Offer yield %
<b>US DOLLARS</b>							
Napage & Co. <sup>†</sup>	200	1994	4	2½	102	Daiwa Europe	2.26
Stand.Cards Tel '90 <sup>†</sup>	200	1995	5	9	99.44	Salomon Brothers	9.145
Miraco Int.(Neth.) <sup>†</sup>	110	1995	5.2	9½	99.47	Salomon Brothers	9.491
Semick Mus.Instr. <sup>†</sup>	30	2000	10	(e)	102	Mitsubishi Fin.Int.	
Barbados <sup>†</sup>	20	2004	14½	1	100	Seangyong Inv.& Secs.	1.000
World Bank <sup>†</sup>	1,500	1997	7	2½	102	G. Secs./Mgn Stanley	0.770
Dong Ah Constr.(K) <sup>†</sup>	100	1997	7	2½	102	Swiss Bank Corp.	0.550
Barwa Australia <sup>†</sup>	50	2000	10	9½	102	Barwa Int.	0.550
EBI(p) <sup>†</sup>	300	2001	17	9½	92.915	Salomon Brothers	8.607
<b>D-MARKS</b>							
Belgium, Kingdom of <sup>†</sup>	500	2000	10	1½	100	Deutsche Bank	
Star Micronics Co. <sup>†</sup>	100	1994	4	1½	100	Deutsche Bank	1.025
U-shin Ltd. <sup>†</sup>	60	1994	4	1½	100	Nomura Europe	1.025
<b>SWISS FRANCS</b>							
Cartier Holt Harvey Finf	100	1995	-	(7)	100	UBS Warburg Securities	*
U-Shin Ltd. <sup>†</sup>	40	1994	-	1½	100	UBS Warburg Securities	1.025
Hypog Bank(p) <sup>†</sup>	200	1994	-	1½	100	Swiss Volksbank	0.250
Toyo Shutter Co.(K) <sup>†</sup>	90	1994	-	Zero	100	Credit Suisse	-
Oki Electric Cable <sup>†</sup>	60	1995	-	1½	100	Yamaichi Bk (Switz)	1.025
Province of Manitoba <sup>†</sup>	200	2000	-	7½	101	UBS	7.107
Net.Nederlanden USA <sup>†</sup>	75	1995	-	7½	101	SSC	7.202
Creditanstalt-Bauspiel <sup>†</sup>	100	2000	-	7½	101½	Wirtschafts und Politik	7.284
Kyushu Electric Power <sup>†</sup>	160	2000	-	7½	101½	SSC	7.284
<b>STERLING</b>							
ECSC <sup>†</sup>	60	2000	19	11½	100½	UBS	11.808
Woolworth Society(m) <sup>†</sup>	250	1994	4	1½	100	UBS Phillips & Drew	
Nationwide Anglia <sup>†</sup>	100	1994	4	13½	101½	UBS Phillips & Drew	11.101
WestLB Finance <sup>†</sup>	60	1994	4	13½	101.00	WestLB Cap. Markets	12.000
<b>ECUs</b>							
C.Corp. de Coop.Econ. <sup>†</sup>	200	2000	10	(6)	100.15	Paribas Capital Mkt	
Export Dev. Corp.(n) <sup>†</sup>	160	1991	1	11½	101.00	UBS Phillips & Drew	10.015
<b>FRENCH FRANCS</b>							
Soc. Generale Acc.(i) <sup>†</sup>	500	1995	6	Zero	100½	Societe Generale	
<b>LIRE</b>							
EIB <sup>†</sup>	200bn	1995	5	13½	98½	Ean Paolo Bank	13.004

This announcement appears as a matter of record only.

NEW ISSUE

FEBRUARY 1990



**DAISHINPAN CO., LTD.**

**U.S. \$100,000,000**

**2½ per cent. Bonds Due 1994**

with

**Warrants**

to subscribe for shares of common stock of Daishinpan Co., Ltd.

**Issue Price 100 per cent.**

**New Japan Securities Europe Limited**

Sanwa International Limited

Merrill Lynch International Limited

Daiwa Bank (Capital Management) Limited

Swiss Bank Corporation

Investment Banking

Bankers Trust International Limited

Cosmo Securities (Europe) Limited

Credit Suisse First Boston Limited

KDB International (London) Limited

KOKUSAI Europe Limited

LTCB International Limited

Morgan Grenfell & Co. Limited

Morgan Stanley International

Towa International Limited

S. G. Warburg Securities

Deutsche Bank Capital Markets Limited

Nomura International

J. Henry Schroder Wag & Co. Limited

Taiyo Kobe International Limited

Barclays de Zoete Wedd Limited

Crédit Lyonnais Securities

IBJ International Limited

Kleinwort Benson Limited

Kredietbank International Group

Manufacturers Hanover Limited

J. P. Morgan Securities Ltd.

Shearson Lehman Hutton International

Toyo Trust International Limited

Yamaichi International (Europe) Limited

This announcement appears as a matter of record only.

February 1990

**Dong Ah Construction Industrial Co., Ltd.**

(Incorporated in the Republic of Korea with limited liability)

**U.S.\$50,000,000**

**1½ per cent. Convertible Bonds due 2004**

**Issue Price 100 per cent.**

**Lead Managers**

**Swiss Bank Corporation**

**Investment Banking**

**Co-Lead Managers**

**Commerzbank**

**Aktiengesellschaft**

**Kleinwort Benson Limited**

**Ssangyong Investment &**

**Securities Co., Ltd.**

**Co-Managers**

**Barclays de Zoete Wedd Limited**

**Bayerische Vereinsbank**

**Aktiengesellschaft**

**James Capel & Co.**

**Daewoo Securities Co., Ltd.**

**Daiwa Europe Limited**

**First Securities Co., Ltd.**

**Houze Govett International Securities Limited**

**Jardine Fleming Securities Limited**

**Kidder, Peabody International Limited**

**Morgan Grenfell & Co. Limited**

**The Nikko Securities Co., (Europe) Ltd.**

**Sanyo International Limited**

**Seoul (Asia) Finance Ltd.**

**Société Générale**

**S.G. Warburg Securities**

**Underwriters**

**Amsterdam-Rotterdam Bank N.V.**

**Hanheung Securities Co., Ltd.**

**Korea First Investment Limited**

## INTERNATIONAL CAPITAL MARKETS AND COMPANIES

**Mack's \$185m loss exceeds forecasts**

By Roderick Oram in New York

**MACK TRUCKS**, battered by a deep sales slump and extraordinary charges, has reported a far bigger loss for the fourth quarter and year than Wall Street had expected.

The full-year loss was \$185.4m, or \$2.24 a share, against a net profit of \$31.8m, or \$0.07, a year earlier. For the fourth quarter ended December, Mack reported a net loss of \$79.5m or \$2.67 a share, against a net profit of \$13.8m or 47 cents a year earlier. The latest period included an extraordinary tax charge of \$664,000 while the year earlier one included a tax gain of \$3.4m.

Given the weakness of the US truck market, "we expect that losses, although on a

smaller scale, will continue into 1990 as our recovery programme continues," said Mr Ralph Reins, chairman.

To help improve its finances, Mack has reached an agreement in principle on a \$50m convertible subordinated loan from Renault, the French motor group which has a 45 per cent stake in it.

If Renault chooses to convert the 20-year debenture, it would boost its interest in Mack to 55 per cent.

Alternatively, Renault could convert existing stock warrants to raise its stake to more than 50 per cent.

Mack said it had also reached agreement with its bankers on a three-year refi-

nancing of \$148m of debt.

Adverse items in the most recent quarter included a \$12.9m charge for settling a dispute with a major supplier and a \$12.3m charge for the cost of cutting its workforce.

Sales plunged to \$370.8m from \$444.7m a year earlier.

Heavy and medium-duty truck deliveries fell by 38 per cent and 48 per cent respectively.

In addition to the fourth-quarter charges, the company also suffered from a \$54m increase in warranty and related costs reflecting the difficulties it had introducing a new truck model and a new 12-litre engine.

Full-year sales dropped 17 per cent to \$1.75bn from \$2.1bn.

"We have been able to significantly strengthen our relationship with the UAW in recent months," Mr Reins said.

**VW sales up 10% to DM65bn**

By Katharine Campbell in Frankfurt

A RECORD turnover at Volkswagen will bring significantly higher profits for 1990, the West German car manufacturer said in a letter to shareholders.

The buoyancy of the European market has underpinned a 3 per cent growth in sales to 2.94m VW, Audi and Seat cars worldwide. A move up market, both in terms of the models themselves and their fittings, has boosted the value of sales 10.5 per cent to DM65bn (\$38.7m).

Most analysts are forecasting group net profits - to be announced in May - comfortably in excess of DM1bn. The comparable figure for 1989 was DM790m.

European sales totalled

2.14m cars, enabling VW to retain its coveted number one position in continental Europe, just ahead of Fiat, with a 15 per cent market share. While its cost control programme proceeds, the company is giving up some of its savings in higher specification cars to retain its lead over Fiat, analysts pointed out.

It is the European export markets - Italy, Spain, and France - which are behind the company's solid growth performance, and sales here were 9.2 per cent above those recorded for 1988. The Passat did particularly well in these markets, almost doubling volumes.

One analyst noted that VW would face, along with domestic manufacturers, considera-

**US regulators take control of Kansas thrift**

By James Bush in New York

**FRANKLIN SAVINGS** Association, a large savings and loan based in Kansas, has become the latest troubled thrift to be taken over by the regulators.

Federal regulators took control of the thrift with assets of \$1.4bn last Friday. The Office of Thrift Supervision said that Franklin's net worth would fall to a negative \$43m after examiners forced the thrift to make several accounting changes.

Regulators forced Franklin to record \$115m in losses from futures trading which it had intended to write off over seven years and said that the thrift would also probably lose another \$185m on zero-coupon bonds that it issued in 1984.

Franklin's problems, unlike many other troubled thrifts, did not stem from heavy investment in high-yielding junk bonds or real estate.

The Office of Thrift Supervision said Franklin's operations deteriorated over the last 18 months because it was unable to generate sufficient profits from securities trades or interest income to cover high-interest payments needed to attract deposits.

Mr Ernest Fleischer, removed as chairman on Friday, designed revolutionary new financial instruments aimed at reducing the risks of interest rate volatility.

**Echo Bay Mines hit by cut in metal reserves**

By Kenneth Gooding, Mining Correspondent

**SHARES** in Echo Bay Mines, fourth-largest of the North American gold producers, fell by 12 per cent on Friday after the company revealed there was far less gold and silver in its McCoy-Cove deposit in Nevada than previously estimated.

The shares, quoted on the Toronto stock exchange, closed C\$14, lower at C\$10.75.

Echo said precious metal reserves at McCoy-Cove, by far its most important development project, had been reduced by 28 per cent. Underground mining would still go ahead but at a much reduced rate.

The company hastened to assure analysts that it had not made similar miscalculations at its two development projects in Alaska.

Echo reported a fourth-quarter loss of US\$11.2m or 12 cents a share compared with a profit of US\$17.7m or 18 cents after taking account of a US\$20m writedown in investments mainly in the Muscoco companies.

For the year there was a profit of US\$16m or 16 cents against a profit of US\$64.4m or 38 cents.

**Downturn at Kirin Brewery**

By Our Financial Staff

**KIRIN BREWERY**, Japan's biggest beer producer, registered pre-tax profits of Y64.5m (344m) for the whole of last year, against Y64.7m for the previous 11 months.

The group forecasts a further setback this year, blaming increased competition, a declining market, and the cost of new products. Pre-tax profits are expected to reach just Y62.5m in 1990.

Sales were Y1.100bn last year, against Y1.180bn for 11 months, but are projected to edge up to Y1.250bn this year.

A maintained total dividend of Y17.50 per share is being paid for 1989 from net earnings of Y28.31, down from Y32.05. Earnings are forecast at Y24.94 in the current year.

**Commerzbank, Hispano in Banco di Roma talks**

By Peter Bruce in Madrid

**BANCO Hispano Americano** of Spain and West Germany's Commerzbank have begun talks with Banco di Roma, the big state-controlled Italian bank, which could soon result in the three banks exchanging equity holdings.

But the recent appointment of a Christian Democrat, Mr Franco Nobili, as head of the Italian Institute for Industrial Reconstruction (Iri), which owns 77 per cent of Banco di Roma, appears to have opened the way for both the German and Spanish partners.

Hispano confirmed that the two banks, plus Banco di Roma and Crédit Lyonnais of France are all members of Europcar, an informal banking consortium.

Commerzbank has owned 10 per cent of Hispano since 1973 and the Spanish bank last year bought 5 per cent of Commerzbank for some Pts8bn (\$83m). The two banks, plus Banco di Roma and Crédit Lyonnais of France are all members of Europcar, an informal banking consortium.

Hispano's purchase of a stake in Commerzbank last year was designed to strengthen this arrangement ahead of 1992 but efforts to

interest either Banco di Roma or Crédit Lyonnais in a similar deal have so far come to nothing. This is because both are nationalised and political interests have limited the entry of foreign capital.

But the recent appointment of a Christian Democrat, Mr Franco Nobili, as head of the Italian Institute for Industrial Reconstruction (Iri), which owns 77 per cent of Banco di Roma, appears to have opened the way for both the German and Spanish partners.

This might then enable Commerzbank, and possibly Banco Hispano Americano, each to take a small share of the Iri holding. Commerzbank regards this as a deepening of the Europcar relationship, which has been in existence since 1971 but has warmed up recently in the light of post-1992 prospects.

■ Banco di Roma has announced a large Euro-line certificates of deposit programme which widens the range of lire instruments for international investors.

The bank is the issuer and arranger of the L200bn programme, which will be priced on a demand basis. Dealers are Nomura, UBS Phillips & Drew, Deutsche Bank and National Westminster Bank.

9.8 per cent growth in sales to Y1.230bn, writes Our Financial Staff. Net earnings per share were Y56.24 against Y50.82, from which a Y11 regular dividend is being paid, although the company has also been making small special and commemorative payments.

■ Bow Valley Industries, the Canadian energy group in which British Gas has a large interest, boosted 1989 net profits to C\$25.1m (US\$21.4m) from C\$10.3m in 1988. Diluted earnings per share were 17 cents against a loss of four cents in 1988. Year-end proved reserves were 74.8m barrels of oil, up 5 per cent from a year before, and 1.028bn cubic feet of natural gas, up 6.5 per cent, Reuters reports.

■ Bank of New England said as many as 2,000 employees would be laid off as part of its attempt to downsize and curtail losses. The bank said the figure was a "preliminary number" and excluded other staff reductions through attrition and asset sales, Reuters reports.

**Asko furniture plans dropped**

By Katharine Campbell

**ASKO** AND Metro, the West German retailers planning two joint ventures, are modifying the construction of one of the new groups, in the hope of making the package more acceptable to the Federal Cartel Office in Berlin.

They have dropped plans to bring their respective furniture businesses into Deutsche SB-Kauf as, with combined sales of Dm3.3bn (US1.9m), they felt the move might have prompted an investigation.

**Oce raises net by 11%**

By Katharine Campbell

**OCE-VAN DER GRINTEN**, the Dutch copier and office equipment company, increased net profits by 11 per cent to Fl 14.7m (\$4.5m) for fiscal 1989, AP-DPA reports. This compared with Fl 13m for 1988, and was in line with expectations.

Sales in the year ended November 30 rose 14 per cent to Fl 2.13bn from Fl 1.86bn in fiscal 1988. After the elimination of sales from the 1988 acquisition of a graphics company and the effects of exchange rate transactions, the underlying rate of sales growth in 1989 was 8 per cent.

Higher financing costs and taxes meant Oce's operating profits rose faster than net profits - up 17.8 per cent to Fl 144.8m. Financing costs in fiscal 1989 rose 33 per cent to Fl 37m from Fl 18m in 1988.

Although Oce increased its number of outstanding shares by 2 per cent as the result of conversions, net profit per share rose 8.8 per cent to Fl 21.18 per share.

Oce is considering a five-for-one stock split and the payment of an unchanged 1989 dividend of Fl 10 per ordinary share.

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Application has been made to the Council of The Stock Exchange for the Shares and Warrants, now proposed to be issued, to be admitted to the Official List. It is expected that such Shares and Warrants will be admitted to the Official List, and that dealings will commence, on 22nd February, 1990.

Particulars of the Shares and Warrants are expected to be available in the Statistical Services of Edsel Financial Limited on 21st February, 1990 and copies of the Placing Memorandum which comprise Listing Particulars relating to The Scottish Asian Investment Company Limited may be obtained during normal business hours from the Company Announcements Office of The Stock Exchange on 20th and 21st February, 1990 and until 4th March, 1990 (Saturdays and public holidays excepted) from:

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19th February, 1990

**SCOTTISH FINANCIAL AND PROFESSIONAL SERVICES**

The Financial Times proposes to publish this survey on:

Friday, March 23rd, 1990

For a full editorial synopsis and advertisement details, please contact:

Kenneth Swan  
Tel: 031-220-1199  
Fax: 031-220-1578

or write to him at:

Financial Times  
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Edinburgh EH2 2HN

**FINANCIAL TIMES**

EUROPE'S BUSINESS NEWSPAPER

**THE SOVIET UNION**

The Financial Times proposes to publish a Survey on the above on:

12th March 1990

For a full editorial synopsis and advertisement details, please contact:

Patrick Surridge  
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London SE1 9HL

**FINANCIAL TIMES**

EUROPE'S BUSINESS NEWSPAPER

**\$150,000,000**

**HMC MORTGAGE NOTES 4 PLC**

Class A  
Mortgage Backed Floating Rate Notes due August 2000

For the interest period from February 15, 1990 to May 15, 1990 the Note Rate has been determined at 15.3675% per annum. The interest payable on the notes due May 15, 1990 will be £3,747.14 per £100,000 nominal amount.

By The Chase Manhattan Bank, N.Y.

London, Agent Bank

February 19, 1990

**\$9,000,000**

**HMC MORTGAGE NOTES 4 PLC**

Class B  
Mortgage Backed Floating Rate Notes due August 2000

For the interest period from February 15, 1990 to May 15, 1990 the Note Rate has been determined at 15.0575% per annum. The interest payable on the notes due May 15, 1990 will be £3,922.71 per £100,000 nominal amount.

By The Chase Manhattan Bank, N.Y.

London, Agent Bank

February 19, 1990

This announcement appears as a matter of record only.

**British Gas****British Gas public limited company****Issue of**

## US MONEY AND CREDITS

**Calm response to Drexel collapse**

"AT FIRST, there will almost be a conspiracy of optimism. US regulatory authorities, including those at the Federal Reserve, will have a bias in their statements towards calming markets and asserting that the Drexel case can be isolated and the damage contained. These statements represent hope, not knowledge, and should be discounted accordingly."

This view is expressed by Mr Biford Putnam, an economist with Kleinwort Benson Securities. There is little doubt that regulators decided not to help Drexel and that they have appeared quite pleased with events.

The financial markets hardly seemed to react to news of Drexel's troubles, a reflection partly of the fact that Drexel's market share had been dwindling over the past year alongside the firm's business suffered in the wake of the guilty plea on six charges of securities fraud.

The relative calmness of the response in markets testifies to the comparative smoothness with which Drexel sold its holdings of Treasuries, corporate and mortgage-backed bonds and high-yield issues. The junk market did very well with some brave bargain-hunters viewing the calm as a signpost that the bottom of the market had finally been found.

Some pressure on Treasury bond prices could be felt as Drexel liquidated its position. Corporate bonds generally held steady and the mortgage-backed market saw investors sitting on the sidelines until the entire portfolio was divested.

That eventually happened at the weekend with Goldman Sachs, the Wall Street investment bank, agreeing to acquire the entire mortgage-backed portfolio subject to approval from Drexel's clients. The companies said the portfolio for current settlement was modest while the forward portfolio was diversified and hedged. They hope to complete the transfer by Thursday.

According to Smith Barney Harris Upham, Drexel has about \$4 billion in securities for forward settlement, the bulk of that is mortgage-backed.

When the dust has settled, mortgage-backed securities may be some of the biggest beneficiaries of uncertainty

surrounding prospects for the high-yield market. Foreign institutional interest in mortgage-backed securities has already increased quite significantly in recent weeks.

Drexel's failure appears to have had only a limited domino effect on other markets and the financial system, and the Administration judged the situation "stable." However, it would be wrong to conclude that there are no longer-term ramifications.

An important one could be the impact on the eventual cost to the Government of bailing out troubled banks and loans. They were among the major buyers of junk bonds and, in spite of the market's relatively steady performance last week, they are already crippled with deeply discounted junk bond holdings and some probably could not stand another slice of price erosion.

The Treasury bond market was undermined last week by news that Resolution Funding, charged with selling debt to finance the third rescue, will be allowed to borrow from the Federal Financing Bank (which gets its money from the Treasury) to raise working capital.

If more thrifts become insolvent because of their exposure to junk bonds, these capital needs could grow.

A second interesting question is how vulnerable the commercial paper market is. It has to be remembered, amid the Drexel drama, that Integrated Resources, which last year defaulted on its commercial paper, filed for protection from its creditors on the same day.

If a company with a frankly inadequate capital structure such as Integrated is an issuer of commercial paper, maybe it is not the rock solid market it used to be.

A third, longer-range question is whether the largest psychological impact of the demise of Drexel will be a new unwillingness by lenders to extend credit on the generous terms seen increasingly in the 1980s. At a time of slow economic growth, this could be a further depressant on the margin.

The Federal Reserve Board has just released the results of its latest survey of senior lending officers, polled last month. The results show that about a

fifth of the respondents reported a decreased willingness to extend overall business credit during the past six months.

Nearly three-quarters had tightened their credit standards for merger-related loans and over half did for non-merger related loans to below-investment grade firms.

It would be an irony indeed if the bankruptcy of Drexel did anything in the long-term to encourage a revival of the tight-fistedness of lenders to emerging companies with no track records.

This is what Mr Michael Milken's junk bonds aimed to alleviate.

All these points will be the stuff of much discussion over coming months but were probably the least concern in the financial markets last week. Of far more immediate (and possibly long-term) importance were the ramifications of political developments overseas.

Yesterday, as the Lower House elections proceeded in Japan, rises in interest rates and inflation looked imminent. Election forecasts, yesterday, went for the ruling LDP party to maintain a majority.

The most significant developments, however, were happening in Europe with plans for the reunification of Germany proceeding at a fair clip.

Economists pored over the implications of monetary and economic union.

The first reaction has been a burst of concern about the inflationary impact of extra spending in the West to help the East which has caused a surge in West German interest rates. According to figures provided by Barclays Bank International, the yield on 10-year German government bonds now stands 12 basis points above the equivalent Treasury. That is historically significant and gives pause for thought for those investors who have blindly invested money in the US for years.

Clearly, rising yields overseas have been weighing on Treasuries, and Bundesbank policy will be a big factor in the US market. With fiscal policy in Germany on an expansionary course, it will be even more crucial for the Bundesbank to maintain tight monetary policy.

While it is perceived to do so, German yields may not rise much further. Inflationary expectations have already risen considerably and perhaps now is the time to focus more on the benefits of productivity, not to mention tax revenues, from a nation of hard-working East Germans.

Janet Bush

## US MONEY MARKET RATES (%)

1st Friday	1 week	4 wks	12 weeks	1 year
1st Friday	8.20	8.10	8.10	8.05
1st Friday	7.92	7.95	7.72	7.65
1st Friday	8.05	8.05	7.92	7.85
1st Friday	8.15	8.25	8.15	8.15
1st Friday	8.05	8.15	8.05	8.05

## US BOND PRICES AND YIELDS (%)

1st Friday	Open	Yield	1 week	4 wks
Short-term Treasury	97.5	—	8.62	8.58
20-year Treasury	100.5	—	8.29	8.25
30-year Treasury	100.4	—	8.46	8.35

Money supply: In the week ended February 5 M1 rose 55.6m to \$798.2bn

## NBS TOKYO BOND INDEX

1985 - 198	PERFORMANCE INDEX				
	1985/86	1986/87	1987/88	1988/89	1989/90
Average	343.75	6.50	344.02	347.81	349.50
Government Bonds	102.61	0.67	102.56	107.75	101.50
Mixed Bonds	102.61	0.67	102.74	107.25	101.50
Corporate Bonds	109.92	7.22	106.17	101.95	102.47
Corporate Bonds	106.55	6.97	106.18	105.95	101.99
Yen-denom. Foreign Bonds	102.31	7.25	102.11	105.85	101.99
Government 10-year	6.22	—	6.12	5.69	5.60

\* Estimated per yield

Source: Nomura Research Institute

## NEW ISSUE

These Bonds having been sold, this announcement appears as a matter of record only.

## JANUARY 1990

**STC CORPORATION**  
(Incorporated in the Republic of Korea with limited liability)

U.S. \$30,000,000

1 1/4% Convertible Bonds Due 2004

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New Japan Securities Europe Limited

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## UK GILTS

**Tax and inflation fears hit prices**

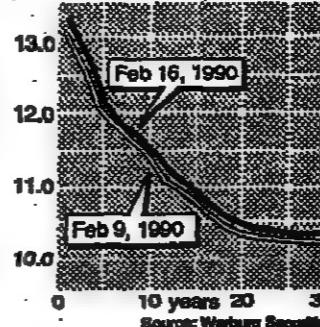
A FALL in prices of half a point on Friday left yields on long-dated gilts closing above 11 per cent for the first time since December 1986.

In 1988 it was the aftermath of a particularly bloody public spending round which affected the market. This time it was a related phenomenon — the evaporation of the Government's fiscal strength — and some giddy inflation news.

Anyone still betting on a pre-Budget round in the market, must have closed up shop on Friday. To many, the Bank of England's buy-in of gilts is

## UK gilts yields

Restated at par (%)



Source: Weisberg Securities

The question therefore is, does Chancellor raise the tax burden over and above an index base?

At either end of the range (£7bn or £10bn), the market faces either a modest issuance of gilts by the Bank, or a continuation of the buy-back, but of a negligible amount. But if the political arguments about a rise in taxes prevail then, assuming accuracy in the market forecasts, sales of gilts in the coming year are likely.

Those who argue that the Bank is looking for a 1990/91 PSBR surplus either a modest issuance of gilts by the Bank, or a continuation of the buy-back, but of a negligible amount. But if the political arguments about a rise in taxes prevail then, assuming accuracy in the market forecasts, sales of gilts in the coming year are likely.

Those who argue that the Bank is looking for a 1990/91 PSBR surplus either a modest issuance of gilts by the Bank, or a continuation of the buy-back, but of a negligible amount. But if the political arguments about a rise in taxes prevail then, assuming accuracy in the market forecasts, sales of gilts in the coming year are likely.

On a £7bn or £10bn PSBR sur-

plus cutout, the Bank's underfund

(excessive purchases of gilts)

is £1.5bn to £2.5bn, and that is net of the cumulative underfund of around £2bn with which it started the financial year. Redemptions in 1990/91 are set to be about £7.5bn, conventional and index-linked.

The orders of magnitude in

the coming year are not great.

fairly compelling political argument. Mr Major was vocal in the Commons during the debates about his predecessor's 24m tax cut in 1988. The Treasury line then (and now) is that the macro-economic effect of those tax cuts was negligible in comparison to the 24m rise in borrowing during 1988.

Mr Major will face an incredulous Commons if, to retain Mr Lawson's 1988 Red Book forecasts or to fine-tune, he raises taxes. The question he will be asked is: If £4bn of tax cuts had no macro-economic effect, why would a film or so tax rise have a desirable effect? Raising taxes could, therefore, be difficult for the Chancellor to finesse.

If the Budget suggests a need for gilt sales, the best suggestion would be done sooner rather than later. The Bank usually likes a head start.

When it was a seller it concentrated sales in the early part of the year and when it was a buyer it did the same.

But the really interesting year is 1991/92. Already this autumn's spending round is shaping up to be a gladiatorial affair. Last year the Treasury faced spending overruns by £15.9bn of £15.5bn; it conceded £5.5bn.

## UK COMPANY NEWS

**Sharp criticism of BAT buy-back**

THE SHARE buy-back programme of BAT Industries, the tobacco-based conglomerate which has been under bid threat from Sir James Goldsmith's Hoylake consortium, has been sharply attacked in regulatory hearings before the California Insurance Department, writes Nikki Tait in Los Angeles.

Representatives of Hoylake claimed that the tax implications of the 10 per cent buy-back scheme could cost the company as much as \$50m.

Mme Beaux, a longtime business associate of Sir James and a director of Hoylake, told the hearing late last week: "Every time they're buying back shares, they are decreasing the value of BAT."

She said that the tax prob-

lem - which Hoylake claims arises from an irrecoverable ACT payment - meant that BAT was effectively paying around \$10.80 for every share it has bought in.

BAT has acquired, and then cancelled, around 3 per cent of its equity since it started the buy-back programme last autumn.

Prices paid before taking into account any tax implication have ranged around the 80p level.

Mme Beaux's remarks were echoed later by Mr Stephen Barber, the Price Waterhouse accountant who has done several sets of financial projections on behalf of Hoylake. Mr Barber put the total tax cost of the programme at \$60m.

"I was a shareholder in BAT, I would like to know why

they are doing this," he said.

BAT said yesterday that the ACT question had to be viewed within the context of its overall restructuring package. "We have never allowed the ACT tail to wag the corporate dog," it commented.

The conglomerate maintained that the earnings per share impact of the buy-back was still positive.

The hearings are being held to assess the suitability of Axa-Midi Assurances to own Farmers Group, BAT's US insurance subsidiary.

Hoylake would sell Farmers to Axa in the event of a successful bid for BAT, but cannot go ahead until regulatory clearances on the Farmers matter have been obtained from nine separate states.

Mme Beaux confirmed that if Hoylake and Axa had such clearances today, there was a firm intention to rebid for BAT.

The Hoylake representatives described the collapse of Drexel Burnham Lambert - the US investment bank which advised on Hoylake's initial bid for BAT last July - as irrelevant.

Mr Barber said that the 80 per cent cash element of a new bid would be obtained by underwriting securities notes.

He said that a \$5m fee to Drexel still formed part of the total \$71.5m costs estimated in the event of a successful bid for BAT. Asked if Sir James Goldsmith still intended to pay this to Drexel, Mr Barber said he did not know.

See Lex

**Portsmouth Sunderland warning on year's profit**

IN ITS third quarter report, Portsmouth and Sunderland Breweries warned that the current year's profits may not match the £5.75m earned in the year ended March 1989.

Profits for the first half were held back to £2m (£3.25m) by development costs.

But those were now being offset by contract pricing, directors' salaries and the third quarter produced an improvement to £1.51m (£1.35m) to leave the six weeks' total at £4.52m (£4.64m).

The year's warning came as the squeeze on consumer spending intensified in the second half, and depressed advertising revenue at both Croydon and Portsmouth.

Turnover for the period rose to £60.52m (£52.5m), while earnings per share slipped to 23.2p (23.4p).

An extraordinary credit of nearly £3.5m was taken, arising on the profit on Reuters shares.

**Wembley sells Juliania's Sound for £10m**

Wembley, the leisure group, has sold Juliania's Sound Services, a disco business, for £10m. The purchaser is Leisure Resources Group, a specialist interior design and project management consultancy.

Wembley bought Juliania's Holdings last July. It has retained the other businesses, which are Juliania's Jongor equipment rental and three night clubs.

The services which are provided under contract include sound and lighting equipment, disc jockey, records, and regular maintenance of equipment.

Leisure's management is subscribing £400,000, while Close Investment Management is putting up £2.5m. The remainder will be satisfied by a bank loan, long stock and preference shares.

In the first half the group

turned in a loss of £424,000, against a profit of £261,000. The leisurewear division, established through the acquisition of Splash Products, was responsible for an operating loss of £513,000. The extent of that company's problems became evident during the move to new premises in November 1989, when stock discrepancies came to light resulting in a significant extraordinary write off.

Grocery turnover more than doubled to £1.36m (£5.2m). Mr Papadimitriou said AT was now involved in litigation with Splash's former auditors, Stoy Hayward, to recover substantial damages.

The directors of this US-listed group expected the difficulties to continue for the foreseeable future and said further adjustments might need to be made when the full-year results were published. It was expected that there would be further losses for the year to January 31 1990.

The accounting policy had been changed with respect to bank interest incurred in fin-

ancing property developments. Consequently £461,000 of interest, which would previously have been capitalised, had been written off in the figures. The directors had reviewed the development portfolio in the light of market conditions and made provisions of £1.45m against the cost of land and developments held at July 31. Loss per share was 6.8p (2.8p earnings).

**Zurich downturn into loss**

ZURICH GROUP is the latest company to have run into trouble because of the adverse conditions in the property development and construction sectors.

In spite of an increase from £11.25m to £24.25m in turnover for the six months to July 31, there was a pre-tax loss of £556,000 against profits of £3.35m. This followed a trading loss of interest payments from £367,000 to £1.1m.

The directors of this

US-listed group expected the difficulties to continue for the foreseeable future and said further adjustments might need to be made when the full-year results were published. It was expected that there would be further losses for the year to January 31 1990.

The accounting policy had been changed with respect to bank interest incurred in fin-

**Newmarket Venture lower**

Newmarket Venture Capital has taken a fall in net asset value, which can be attributed to major provisions, realised losses, and the weakening of the US dollar.

At the end of 1989 the value was 91p per share, compared with 95p at September 30 and 94p at end 1988. Net tangible assets were £28.97m, £23.4m, and £23.4m respectively.

Newmarket's main business is making investments in the UK and US. Those usually take several years to mature before being realised to provide future investments.

The company said the asset fall principally represented the provision against two unquoted holdings - one in the UK and one overseas.

## BOARD MEETINGS

TODAY	APR 1990	MAR 1990
Interstar: Amex Trust, Plc, Thrimarkes	Mar. 1	Mar. 1
David Trust, Plc, Gattis Investments, Relaid, Tepco	Mar. 7	Mar. 7
Granmet Dev. Capital, Plc, New Investors Trust	Mar. 10	Mar. 10
Richardsons Weatherspoon, Plc, Underwriter	Mar. 12	Mar. 12
Underwriter, Plc, Williams Holdings	Mar. 27	Mar. 27
Williams Holdings	Mar. 27	Mar. 27

## Magnet resolutions approved

Albert King, the company's former finance director who is now suing Magnet for wrongful dismissal. Votes in favour of the three resolutions totalled 97,597 while votes against were 38,714. No questions were asked at the meeting.

## JMD bid talks off

The following securities were added to the Share Information Service in Saturday's edition:

Air London (Section: Transport)  
Hong Kong Telecom (Electronics)  
JP Philippines Plc (Finance, Land)  
JP Philippines Plc Warrants (Finance, Land)  
Micklegate Group (Property)  
Northumbrian Water (Water)  
Seven Trust Water (Water)

Progress was dependent on the completion of certain transactions by the other party. These transactions had not yet been completed. The JMD board might consider re-examining the proposals should those transactions be completed.

Meanwhile, the board was looking at a number of other possible transactions with a view to broadening the base of the group's operations.

The shares lost 2p after the announcement to close at 9p on Friday.

## FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Air London (Section: Transport)  
Hong Kong Telecom (Electronics)  
JP Philippines Plc (Finance, Land)  
JP Philippines Plc Warrants (Finance, Land)  
Micklegate Group (Property)  
Northumbrian Water (Water)  
Seven Trust Water (Water)

## Christiania Bank og Kreditkasse

(Incorporated in the Kingdom of Norway with Limited Liability)  
YEN 10,000,000,000 VARIABLE COUPON BONDS DUE 1993  
Notice is hereby given that the interest payable on the relevant interest Payment Date, February 23, 1990 for the period August 28, 1989 to February 23, 1990 against Coupon No. 1 in respect of Yen 1,000,000,000 nominal of the Notes will be Yen 25,991,831.

February 19, 1990, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

This advertisement is issued in compliance with the requirements of the Council of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). It does not constitute an invitation to the public to subscribe for, nor purchase, any securities. Application has been made to the Council of the Stock Exchange for the shares mentioned below to be admitted to the Official List.

## Evered plc

(Incorporated in England and Wales with Registered No. 192412)

Issue of 25,000,000 11.25p Cumulative Redeemable Preference Shares 2005 of 10p each at 100.75p per share

Details of the above mentioned shares are available in the new issue cards circulated by Exetel Statistical Services and copies of the Listing Particulars relating to the issue have been published and are available in the Exetel Statistical Services and may be obtained during usual business hours up to and including 21st February, 1990 from the Company Announcements Office at 45-50 Finsbury Square, London EC2A 1BD and during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 5th March, 1990 from Evered plc, Radcliffe House, Blenheim Court, Lodge Lane, Solihull, West Midlands B91 2AA and from:

Samuel Montagu & Co. Limited  
10 Lower Thames Street  
London EC2R 8AE

James Capel & Co. Limited  
7 Devonshire Square  
London EC2M 4HU

19th February, 1990

Samuel Montagu & Co. Limited and James Capel & Co. Limited are both members of The Securities Association.

**VENTERSPOST GOLD MINING COMPANY LIMITED ("VENTERSPOST")**

(Registration No. 05/05632/06)

(Incorporated in the Republic of South Africa)

**RESULT OF RIGHTS OFFER OF 2,500,000 LINKED UNITS IN VENTERSPOST**

Venterspost announces that acceptances have been received in respect of 2,409,470 linked units ("units") representing 96.4% of the offer which was made to shareholders in order to raise an amount of approximately R159.5 million, net of estimated expenses of R3 million.

The balance amounting to 90,530 units has been taken up by Gold Fields of South Africa Limited, underwriter to this offer.

Registered and Transfer Offices:

75 Fox Street  
Johannesburg  
2001

PO Box 1167  
Johannesburg  
2000

Ferguson Bros. Hall, Stewart & Co. Inc.  
(Registration No. 72/08905/21)

(Member of the Johannesburg Stock Exchange)

(In the United Kingdom)  
Cazenove & Co.  
(A member firm of The International Stock Exchange)

A member of the Gold Fields Group:

**E200,000,000 MFC Finance No.1 PLC**

Mortgage Backed Floating Rate Notes Due October 2023  
In accordance with the Terms and Conditions of the Notes, notice is hereby given that the new interest rates and periods in respect of the subject Notes are as follows:-

Payment Dates: Feb. 1990, Feb. 1991, Feb. 1992, Feb. 1993, Feb. 1994, Feb. 1995, Feb. 1996, Feb. 1997, Feb. 1998, Feb. 1999, Feb. 2000, Feb. 2001, Feb. 2002, Feb. 2003, Feb. 2004, Feb. 2005, Feb. 2006, Feb. 2007, Feb. 2008, Feb. 2009, Feb. 2010, Feb. 2011, Feb. 2012, Feb. 2013, Feb. 2014, Feb. 2015, Feb. 2016, Feb. 2017, Feb. 2018, Feb. 2019, Feb. 2020, Feb. 2021, Feb. 2022, Feb. 2023, Feb. 2024, Feb. 2025, Feb. 2026, Feb. 2027, Feb. 2028, Feb. 2029, Feb. 2030, Feb. 2031, Feb. 2032, Feb. 2033, Feb. 2034, Feb. 2035, Feb. 2036, Feb. 2037, Feb. 2038, Feb. 2039, Feb. 2040, Feb. 2041, Feb. 2042, Feb. 2043, Feb. 2044, Feb. 2045, Feb. 2046, Feb. 2047, Feb. 2048, Feb. 2049, Feb. 2050, Feb. 2051, Feb. 2052, Feb. 2053, Feb. 2054, Feb. 2055, Feb. 2056, Feb. 2057, Feb. 2058, Feb. 2059, Feb. 2060, Feb. 2061, Feb. 2062, Feb. 2063, Feb. 2064, Feb. 2065, Feb. 2066, Feb. 2067, Feb. 2068, Feb. 2069, Feb. 2070, Feb. 2071, Feb. 2072, Feb. 2073, Feb. 2074, Feb. 2075, Feb. 2076, Feb. 2077, Feb. 2078, Feb. 2079, Feb. 2080, Feb. 2081, Feb. 2082, Feb. 2083, Feb. 2084, Feb. 2085, Feb. 2086, Feb. 2087, Feb. 2088, Feb. 2089, Feb. 2090, Feb. 2091, Feb. 2092, Feb. 2093, Feb. 2094, Feb. 2095, Feb. 2096, Feb. 2097, Feb. 2098, Feb. 2099, Feb. 2000, Feb. 2001, Feb. 2002, Feb. 2003, Feb. 2004, Feb. 2005, Feb. 2006, Feb. 2007, Feb. 2008, Feb. 2009, Feb. 2010, Feb. 2011, Feb. 2012, Feb. 2013, Feb. 2014, Feb. 2015, Feb. 2016, Feb. 2017, Feb. 2018, Feb. 2019, Feb. 2020, Feb. 2021, Feb. 2022, Feb. 2023, Feb. 2024, Feb. 2025, Feb. 2026, Feb. 2027, Feb. 2028, Feb. 2029, Feb. 2030, Feb. 2031, Feb. 2032, Feb. 2033, Feb. 2034, Feb. 2035, Feb. 2036, Feb. 2037, Feb. 2038, Feb. 2039, Feb. 2040, Feb. 2041, Feb. 2042, Feb. 2043, Feb. 2044, Feb. 2045, Feb. 2046, Feb. 2047, Feb. 2048, Feb. 2049, Feb. 2050, Feb. 2051, Feb. 2052, Feb. 2053, Feb. 2054, Feb. 2055, Feb. 2056, Feb. 2057, Feb. 2058, Feb. 2059, Feb. 2060, Feb. 2061, Feb. 20

## **WORLD STOCK MARKETS**

For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 39p per minute peak and 25p off peak, Inc VAT

## **AUTHORISED UNIT TRUSTS**

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GUIDE TO UNIT TRUST PRICING

**INITIAL CHARGES**  
 These represent the marketing, administration and other costs which have to be paid by new participants. These charges are included in the price when the customer buys units.

**OFFER PRICE**  
 The price at which units may be bought.

**CANCELLATION PRICE**  
 The participant can buy back the offer and bid prices is determined by a formula laid down by the government. In general, most fund managers charge a small premium spread. As a result, the bid price is often not well above the redemption/cancellation price which is called the cancellation price in the table. However this bid price may not be related to the cancellation price in circumstances in which there is a large excess of units over shares.

**TIME**  
 The time shown alongside the fund manager's name is the time at which the unit trustee daily closing price is normally set unless another time is indicated by the word alongside the individual fund trust above. The figures are in billions: £ - £000 to 1,000 hours; £ - £1,000 to 4,000 hours; £ - £4,000 to 17,000 hours; £ - £10,000 to 20,000 hours.

**REDISTRICT PRICES**  
 The fund manager does not sell units on a bimonthly price basis. This means that investors can obtain the latest valuation at the time of buying. The price shown are the latest available before publication and may not be the current trading levels as of an intervening portfolio revaluation or a switch to a forward pricing basis.

**PURCHASE PRICE**  
 The letter P denotes that prices are set on a forward basis so that investors can be given an inflated price in advance of the purchase or sale being carried out. The prices appearing in the manager show the price at which they were carried out yesterday.

**SIGNIFICANT ANNUAL EXPENSES**  
 The total recent report and review publications can be obtained free of charge from fund managers. Other supplementary data contained in the column of the FT Unit Trust Information pages.

## FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 3p per minute peak and 2p off peak, inc VAT

Net Assets	Corp. Name	Sec.	Per Unit	Yield	Div.	Div. Date	Div. Op.	Net Assets	Corp. Name	Sec.	Per Unit	Yield	Div.	Div. Date	Div. Op.	Net Assets	Corp. Name	Sec.	Per Unit	Yield	Div.	Div. Date	Div. Op.			
Thorntons Unit Managers Ltd	120327	J. Rothschild Fund Managers Ltd	1453	17.07	-	-	-	222	Baring Life Assur. Co Ltd	EL-312545	Narrow Plate, British 822 DMU	1027-270264	Equity & Low-Cost	Per N America	1194.1	389.0	6.22	General Trust Exchange - Contd.	London Life Assur. America Ltd	6209	31.11	50.7	14238	Marchant Investors Assurance Co Ltd -	507.7	14238
33 Cavendish St, London W1A 1PF	01-493 7262	Barclays Bank	1453	17.07	-	-	-	Barclay Fund	London	27	1193.5	389.0	6.22	Life Fund	Per N America	1192.5	389.0	50.7	Mit Ind Equity	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Dealing 01-493 5245	-	Stewart Ivory & Co Ltd	120328	120.6	-	-	-	Performance Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Equity Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
(Accrued Divs)	-	Stewart Ivory & Co Ltd	120329	120.6	-	-	-	Property Acc.	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
European Divs	3.70 95	Stewart Ivory & Co Ltd	120330	120.6	-	-	-	Property Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Ex Divs	-	Stewart Ivory & Co Ltd	120331	120.6	-	-	-	Gilt-Indexed Acc.	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Far Eastern Prefs	5.13 69	Stewart Ivory & Co Ltd	120332	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Japan (Int'l)	1.79 56	Stewart Ivory & Co Ltd	120333	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Global Fund	1.61 56	Stewart Ivory & Co Ltd	120334	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
America (Int'l)	5.17 08	Stewart Ivory & Co Ltd	120335	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120336	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Saint Lucia Trd	2.12 87	Stewart Ivory & Co Ltd	120337	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Lebanon Fund	1.16 01	Stewart Ivory & Co Ltd	120338	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Kazakhstan	3.35 24	Stewart Ivory & Co Ltd	120339	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
Oriental Fund	1.16 01	Stewart Ivory & Co Ltd	120340	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
America Fund	5.17 20	Stewart Ivory & Co Ltd	120341	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120342	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
UK Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120343	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120344	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120345	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120346	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120347	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120348	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120349	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120350	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120351	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120352	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	5.14 15	Stewart Ivory & Co Ltd	120353	120.6	-	-	-	Gold Fund	London	27	1193.5	389.0	6.22	Equity Fund	Per N America	1192.5	389.0	50.7	Mit Ind Managed Fund	1192.5	389.0	50.7	14238	Cardiff	507.7	14238
US Int'l Fund	1.23 13	Stewart Ivory & Co Ltd	120354	120.6	-	-	-	Gold Fund																		

## FT UNIT TRUST INFORMATION SERVICE

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Ref.	Price	Offer Price	Total Div.	Opn.	Div.	Div.	Ref.	Price	Offer Price	Total Div.	Opn.	Div.	Div.	Ref.	Price	Offer Price	Total Div.	Opn.	Div.	Div.	Ref.	Price	Offer Price	Total Div.	Opn.	Div.	Div.
National Financial Management Corp PLC	272	305.51	Prudential Capital Life Assns Co Ltd	1.00	-	-	Royal Mortgage Inv Assurance Ltd - Credit	12.50	12.50	0.00	12.50	12.50	0.00	Shorebridge Water Envitable	0.00	0.00	0.00	Shares (Albert E J) & Co	12.00	20.00	2.244	Royal Bank of Canada Funds	12.00	20.00	2.244	44812001	
72 Cavendish Rd, Aylesbury, HP10 3XJ	110.5	145.5	Property Invnt	145.5	-	-	Shorelife Assurancs Ltd	12.50	12.50	0.00	12.50	12.50	0.00	Shorelife Fund Managers Ltd	0.00	0.00	0.00	RBC Ontario Fund Managers Ltd	12.00	20.00	2.244	44812001					
Manager Growth	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame North	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
Manager Growth	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame South	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame West	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
Managed Growth	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
Managed Growth	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
Managed Growth	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	145.5	-	-	Soc Financiame Wht	144.1	144.1	0.00	144.1	144.1	0.00	Shorelife Inv Fund	5.00	5.00	0.50	Shorelife Fund	5.00	5.00	0.50	44812001					
RFI Equity Fund	145.5	145.5	Property Invnt	14																							

## **FT UNIT TRUST INFORMATION SERVICE**

- For Current Unit Trust Prices on any telephone ring direct 0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, Inc VAT

FINANCIAL TIMES MONDAY FEBRUARY 19 1990

## CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

**Gilts follow downward path**

UK GILTS followed a downward path last week and gained no reassurance from Friday's retail price index, giving an unchanged year-on-year inflation rate of 7.7 per cent in January. The City expected a fall to 7.5, mainly because rail price rises in January 1989 dropped out of the calculation, and this year rail increases were delayed until February.

**UK clearing bank base lending rate**  
16 per cent  
from October 5

Within the next few months inflation will be boosted by several factors, including the higher rail fares, rising mortgage rates and possibly by duty increases in the Budget. Mr Nick Parsons, economist at Union Discount, said the RPI could touch 8 per cent in April. This is potentially worse for gilts than for the structure of

interest rates, and for the performance of the relative futures contracts on Liffe. If inflation continues to rise it will drive gilts lower, but there is no reason to believe base rates will rise at present. Base rates are equally unlikely to fall and this will lead to a drift down in the price of short sterling, but if the long gilt contract continues to fall at its present rate a situation not yet seen on the Liffe market is not far away.

At no time has the price of the long gilt been lower than the price of short sterling, but at the end of last week the June gilt price was 80-31, while three-month short sterling was 85-35. In the later part of last year long gilt futures were still trading above 95-00, compared with a price of around 86-00 for short sterling. Since then the fall in the gilt price has been much sharper and unless base rates go up the two contracts could cross within a few months.

**E IN NEW YORK**

Feb 16	Clos	Previos Date
1 month	1,070.7	1,068.5
3 months	1,067.5	1,066.5
12 months	1,072.2	1,069.6
Forward premium and discounts apply to the US dollar		

Feb 16	Previos Date
8.30	8.30
9.00	9.00
10.00	10.00
11.00	11.00
12.00	12.00
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14.00	14.00
15.00	15.00
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## LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0886 43 + four digit code (listed below). Calls charged at 3p per minute peak and 25p off peak, inc VAT

## BANKS, HP &amp; LEASING

## BUILDING, TIMBER, ROADS - Contd

## ELECTRICALS - Contd

## ENGINEERING - Contd

## INDUSTRIALS (Miscel.) - Contd

## INDUSTRIALS (Miscel.) - Contd

	Price	Yield	Last	Markets		Price	Yield	Last	Markets		Price	Yield	Last	Markets		Price	Yield	Last	Markets		Price	Yield	Last	Markets	
Barclays	254.0	4.0	254.0	London		54.0	4.0	54.0	London		125.0	4.0	125.0	London		180.0	4.0	180.0	London		225.0	2.4	225.0	London	
2,330 NatWest SA1	254.0	4.0	254.0	London		44.0	6.1	44.0	London		145.0	4.0	145.0	London		240.0	2.4	240.0	London		320.0	2.4	320.0	London	
2,403 NatWest National	243.0	1.7	243.0	London		45.0	6.1	45.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
1,401 Balfour Beatty Ord.	254.0	5.6	254.0	London		45.0	6.1	45.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
1,292 Balfour Beatty Plc	254.0	5.6	254.0	London		45.0	6.1	45.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
1,293 Balfour Beatty Plc	254.0	5.6	254.0	London		45.0	6.1	45.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
141.0 Balfour Beatty (N) 1a	74.0	2.0	74.0	London		45.0	6.1	45.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
921.0 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,202 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,203 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,204 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,205 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,206 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,207 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,208 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,209 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,210 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,211 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,212 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,213 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,214 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,215 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,216 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,217 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,218 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,219 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,220 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,221 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,222 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,223 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,224 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	
2,225 Balfour Beatty Plc 1D	254.0	2.4	249.5	May Mar		220.0	1.7	220.0	London		143.0	4.0	143.0	London		245.0	2.4	245.0	London		315.0	2.4	315.0	London	



## **NEW YORK STOCK EXCHANGE COMPOSITE PRICES**

*4pm prices February 16*

**Continued on Page 33**

## **NYSE COMPOSITE PRICES**

12 Month High Low Stock Div. Yrs. E 1994 High Low

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also simple, b-annual rate of dividend plus stock dividend, c-equidating dividend, d-claimed, d-new yearly low, e-dividend declared or paid in preceding 12 months, f-dividend in Canadian funds subject to 15% non-residence tax, g-dividend declared after split-up or stock dividend, h-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting, i-dividend declared or paid this year, as accumulative basis with dividends in arrears, j-new low in the past 52 weeks. The high-low range begins with the start of trading, m-next day delivery, P/E price-earnings ratio, r-dividend declared or paid in preceding 12 months plus stock dividend, s-stock split. Dividends begin with date of split, t-schedule, u-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date, v-new yearly high, w-trading halted, x-in bankruptcy or receivership or being incorporated under the Bankruptcy Act, or securities suspended by such companies, y-not distributed, z-without limit, w-with warrants, x-ex-dividend or ex-rights, z-with distribution, z-without warrants, y-ex-dividend and sales limit, yd-yield, z-yield in full.

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**4pm prices February 16**

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**FINANCIAL TIMES**  
EUROPE'S BUSINESS NEWSPAPER

## The Business Column

### The costly business of government computing

**C**entral governments are the computer industry's biggest customers and can influence it profoundly. In the UK alone, the amount spent annually on information systems is approaching £1bn. Government computing in the UK, however, is a paradox. On the one hand, and in common with other governments and organisations like the European Commission, it is in the vanguard of the move towards "open" or industry standard systems which have as a big objective reduced costs for users. In this, it sets an example which commercial companies have been slow to follow.

On the other hand, central government procurement procedures are anachronistic, time-consuming and badly matched to the needs of the civil servants at every level in executive departments who use the technology. Those procedures stifle the development of imaginative uses of information technology in government.

The commercial world is years ahead here. Mr David Teague, who runs the Central Government Business Unit for International Computers (ICL), the UK's largest computer manufacturer and largest supplier to the government, calculates that inefficiencies in the procurement process add some 30 per cent to the cost of government computing. In the private sector this figure is 5 per cent.

#### Lower margins

These two things – the move towards open systems and unwarranted procurement overheads – reinforce each other to make life difficult for both suppliers and computer users. Systems based on standard hardware and software have intrinsically lower profit margins than proprietary systems.

Gross margins of 60 per cent or more on proprietary mainframe computers are being cut to 40 per cent or less on open systems sales. Yet traditional procurement methods waste time and money and squander innovation.

The result is that tendering for government business has become at best a marginally profitable activity for many suppliers. Mr Teague says that ICL has refused to bid for contracts where there is no prospect of reasonable profit. Other suppliers he adds, have won contracts but lost money.

Their customers suffer now by being deprived of the traditional services – consultancy, training and so on – that suppliers threw in free.

The procurement process is controlled by EC and Gatt regulations designed to encourage fair competition. Take, for example, the installation of an office automation system for a government department. Its need for the system is identified by the department, which discusses technical requirements with government IT staff. Technical requirements, mind, not user requirements.

Drawing up a technical specification might take a year. Some level of feedback to the proposals might be sought from leading suppliers. At this stage the formal invitation to tender is advertised in the EC Journal. Evaluation of the various bids including simulation and testing takes another – say – 42 weeks. All in all, it could take two to three years from the initial request to delivery of the final system.

#### Broken rules

Such a process breaks every rule of sensible systems specification. The user's real needs are consistently ignored and valuable time and money is wasted on elaborate competitive bids. Most significantly, all experience suggests that after three years the original requirement will have changed out of all recognition.

Mr Teague would like to see more of a partnership between suppliers and their central government customers in the early stages of procurement to cut these hidden costs of procurement. Such joint approaches are common in the commercial world. The difficulty seems to be the zeal with which officialdom applies the Gatt and EC rules.

The rules cannot be changed overnight, but the prospect of savings of 30 per cent on £1bn a year should be enough to encourage a modicum of flexibility with these outdated procedures.

Alan Cane

"DO YOU think takeovers are a good thing?", David Calcutt is asked.

"Does that matter?", he replies.

"Well, does it?", the question persists.

But Mr Calcutt, who took over in October 1989 as chairman of the Takeover Panel, the UK watchdog on bids and deals, is a QC of 17 years standing and not about to fall for this one.

"I'm more than content to be a regulator," he replies in tones reminiscent of Gielgud at his mellifluous best. "I've been asked if I will preside over the Takeover Panel and been presented with a system."

"But the virtues of takeovers, that seems to me to be a matter for the Government, the DTI, shareholders, almost anyone you like except me."

It is a reply which sums up much of the Panel chairman's approach. He is talking from a book-lined room in the Master's Lodge of Magdalene College, Cambridge, where he also presides. Organised bundles of red-ribbed briefs abound, a reminder that his legal work continues. The masterpiece is neatly piled with papers and invitations. There are two easy armchairs and an unglamorous one-bar electric fire. It is a mixture of order, reassurance and restraint. Above all, it is practical.

The same spirit shows up in Mr Calcutt's answers. One might imagine that heading the UK's takeover watchdog and watching over the development of its rules would require some assessment of the merits of the whole frenetic world of bids and deals. But David Calcutt is resolutely pragmatic.

He is emphatic that the upper ranks of the legal profession should be used far more widely as arbitrators – as opposed to policy-makers – and should be correspondingly jealous of their independence.

"What I privately feel," he says, "I shall keep private because I could jeopardise the independence which I want to maintain."

One wonders how much of a mask this professional attitude is. Mr Calcutt, who rejects the idea of "a certain dedicated person deciding on problem after problem," claims to have strong feelings about many of the matters before him.

Unlike Lord Alexander, who quit the Panel chairmanship after just two years to head National Westminster Bank, this courteous, top-ranking lawyer is an unfamiliar figure, both to City practitioners and to the general public. As a QC, Lord Alexander handled attention-grabbing cases, such as appearing for Kerr Pilkington, the reef cricketers and for BP over the sanctions row with Libya.

Mr Calcutt, by contrast, has

## MONDAY INTERVIEW

# The Master's view

David Calcutt, the chairman of the Takeover Panel, talks to Nikki Tait

tended to tackle less glamorous matters, including civil service pay arbitration – which, he points out, affected 1.5m people – coal mine closures (via the Colliery Industry Review Body), and the Falklands Islands Commission of Inquiry which he chaired. Only in very recent times, notably as chairman of the inquiry into privacy and the press, has he featured more prominently in public.

It would be easy to assume that his role at the Takeover Panel will be less high-profile, too. Lord Alexander took over shortly after the Guinness affair, when the Takeover

sufficient sanctions in three respects," he says. "First, it is known that if a party breaks the rules during the course of a takeover it is liable to be exposed by the Panel in a statement and that cannot be good either for the merchant bank or for the client. Second, there is cold shoulder. And third, we're now under the umbrellas of the Financial Services Act and its restrictions."

He pauses, before delivering a well-worn trump card. "If you need living proof of it, it must have been quite difficult to persuade Guinness to part with £28m" – the amount which the drinks group was obliged to pay to Distillers shareholders as a result of transgressing Panel rules during the bid battle for control.

But not without a battle which progressed all the way up to the House of Lords?

"Never mind," Mr Calcutt says with a smile. "We won the battle. I feel that was a tremendous achievement. That proves that we're in business. We're not just a toothless tiger."

Even so, the thought persists that, while such all-out efforts may establish the Panel's ultimate authority, at a day-to-day level merchant banks do indulge in minor transgressions with remarkable frequency. Public rebukes seem to do little to deter them.

"They can't know at the time what the reaction is going to be," suggests Mr Calcutt in defence. Then, with the sort of diplomatic touch which may prove invaluable in Brussels, he softens the discussion. "This is exactly the sort of thing which one's got to keep under review the whole time and see where we need to go from here. At the moment I'm quite content. We may have to take a look at it."

The point is critical. If the UK is to persuade its European partners that self-regulation

should be allowed to persist, it needs to demonstrate that it works.

The Calcutt case is that

experience and the track record justify the UK system.

"The advantages as I see it are first, that the Panel is totally informal, by which I mean that consultation is not only encouraged but, in some cases, is obligatory.

"The Code is highly flexible,

we can derogate, if we want,

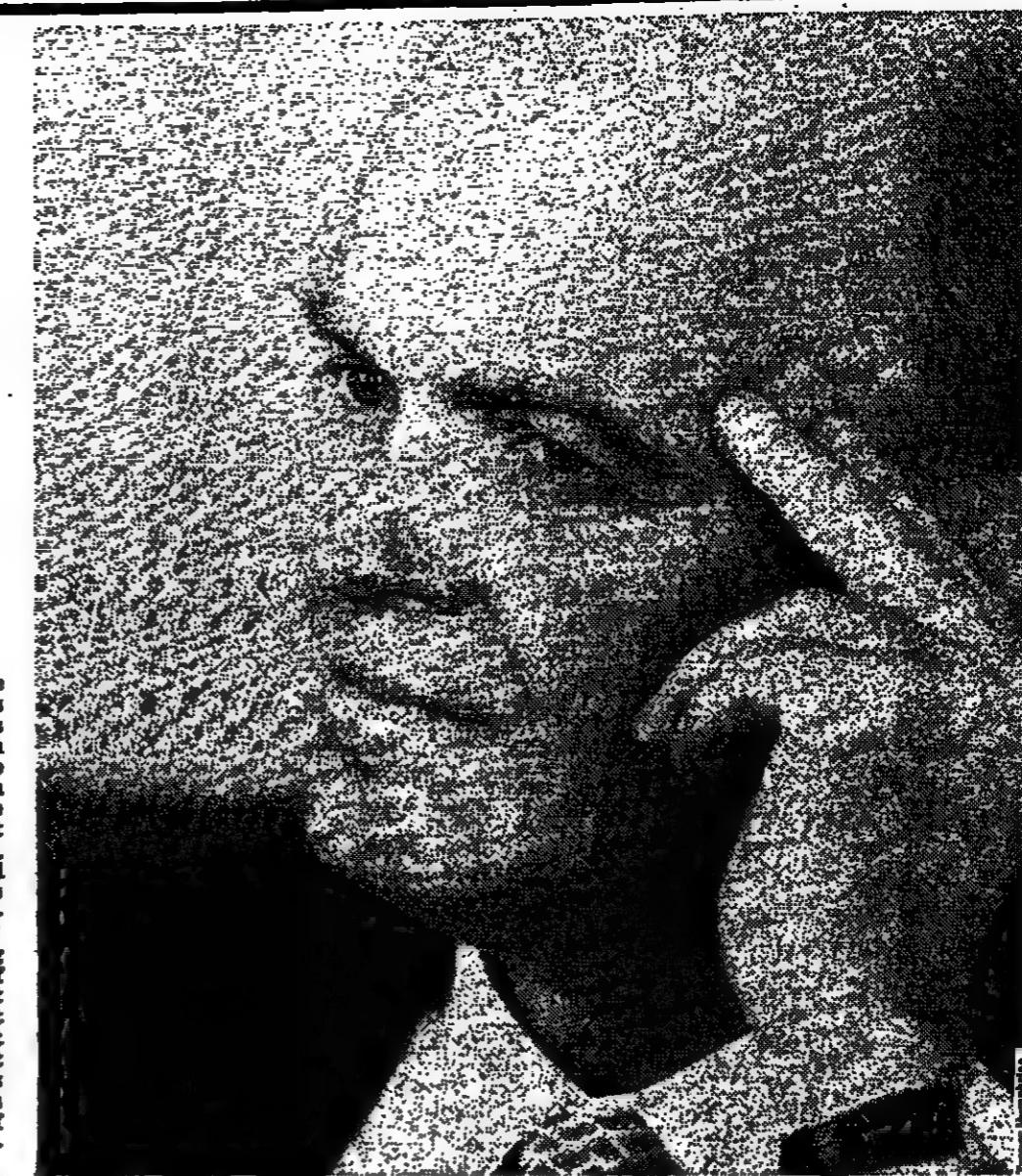
from our principles. We've got

speed, which is very important.

And we've got the full Panel

which can give a ruling which one hopes will be respected by the court." He notes that in the past, British courts have been reluctant to interfere in takeover matters.

Would such a structure be



**The Panel will not be slavishly bound by precedent\***

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Would such a structure be

suited of the way in which we do things is the best way.

I'm saying this not in some sort of jingoist sense –

because it's England it must be best. That is utterly untenable. But I think that if you look at our system it does work.

He says what informs his mission is a desire to preserve the UK system for the UK, rather than to wish non-statutory regulation on other countries.

But if Europe is the largest single issue facing the new chairman, there is also the domestic bid scene to worry about. How does he feel about the consistency of the Panel's decision-making, the areas which is sometimes cited as the downside to a flexible non-statutory system?

Mr Calcutt concedes the dom-

## Cairo fights for its Islamic heritage



### LETTER FROM CAIRO

IT IS the metropolis of the universe, the garden of the world, the nest of the human species, the gateway to Islam, the throne of royalty; it is a city embellished with castles and palaces and adorned with monasteries built by the moon and with colleges lit by the stars of creation.

With these words Ibn Khaldun, the great 14th century Arab historian, drew a picture of Islamic Cairo as extravagant in its praise, so unstinting in its admiration for the architectural achievements of the Mameluke rulers and their Fatimid predecessors, that it is difficult not to be infected by his enthusiasm. And to ask why the legacy is not better appreciated today.

Within an area of a little more than three square kilometres lies some of the world's finest examples of medieval architecture, and yet many of the monuments are crumbling, victims of neglect, the sheer weight of population and the destructive effects of rising sea-levels and its corrosive salts. Much of Cairo's priceless Islamic heritage is disappearing.

Naguib Mahfouz, the Nobel Laureate for literature, who has written much about Islamic Cairo and whose early life was spent there, likens the old city to a woman aged 80.

The house in which he grew up in the old quarter has been torn down to make way for a new building "like a prison." And so the character of the old city changes without official restraint.

George Scanlon, an American University in Cairo expert on Islamic architecture, says that throughout the entire Islamic world you will not find anywhere else such a concentration of buildings and structures representing almost the full sweep of Islam's march from the seventh century on. He contrasts this with Istanbul, or Constantinople as it was during the Ottomans.

The rules cannot be changed overnight, but the prospect of savings of 30 per cent on £1bn a year should be enough to encourage a modicum of flexibility with these outdated procedures.

constitute the gravest threat to the old monuments.

The Madrasa of Qalawun and its ancillary buildings are surrounded by contaminated water that is rising steadily by the year. "We have here a swimming pool underneath," declared Dr Lamel Mostafa. "If we open the grave of Qalawun it would be full of water."

Nearby, at the Wakala (merchant's hostel) of Qaitbay adjacent to the northern gate of Bab al-Nasr (one of three surviving city gates of the 60 that once encircled medieval Cairo) another problem exists.

Families of sometimes 10 or more people are crowded into small cells that were used by travelling merchants. "People live in these buildings; they play in the same place, they cook in the same place, they sleep in the same place," declared Dr Lamel Mostafa despairingly.

John Rodenbeck, a Professor of English at the American University and one of the founders of the Society for Preservation of the Architectural Resources of Egypt, says that the problems are so big and politically sensitive that the bulk of the repair work done in the past decade appeared "cosmetic, repairing surfaces and often merely applying bright coats of paint." He added that the "fundamental underlying defects, like rising ground-water, which will hasten decay in the future, remain to be dealt with."

The ornate interior of one of the grandest Islamic monuments – the complex that includes the mausoleum of great Mameluke Sultan Mumtaz Qalawun who ruled Egypt in the late 13th century – is being destroyed. Delicate inlay work of mother-of-pearl and marble on the walls is lifting and cracking in many places because of the corrosive effects of sewer water.

Dr Saleh Lamel-Mostafa, a freelance consultant and adviser to the Egyptian Antiquities Department, believes that the rising water table beneath the old city and an inadequate drainage system – thousands of gallons of wastewater finds its way each day into the saturated sub-soil –

constitutes a major threat to the industry in Europe, the environmental issues involved in water supply and in improving pollution control. Speakers include:

**Mr Martin Grüner**  
Federal Ministry for the Environment,  
Nature Conservation & Nuclear Reactor Safety,  
West Germany

**The Rt Hon The Lord Crickhowell**  
National Rivers Authority

**Mrs Christine Morin-Postal**  
Lyonnaise des Eaux

**Mr Michael Swallow**  
The Water Companies Association

**Mr Adrian White**  
Bwator Limited

**Mr David Godbury**  
Southern Water plc

**Mr Rob H F Kreutz**  
Vereniging van Exploitanten van  
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Tony Walker

ger. "In a court of law, precedents would be appealed. That doesn't tie in swiftly happily with the notion that we have principles and that we apply the principles in each case to give ourselves a certain amount of flexibility. I see the difficulty there."

"I believe, nevertheless, that the tendency is to want to be consistent. I just think the Panel is not prepared, and I go along with this, to be slavishly bound by precedent."

"This could lead to some unhappy contradictions. The recent examples of the Consolidated Gold Fields/Minoro and BAT/Hoylake bids, where both predators faced obstacles overseas which meant they could not complete their offers within a UK timetable, spring to mind. Minoro lost the bid because it could not get a US court injunction lifted before the clock ran out. Hoylake has been allowed to let its lapse, seek US clearances and then rebid."

"I think the two cases were distinguishable and very difficult, but I don't see any inconsistency," Mr Calcutt says.

"In the Minoro case, there was the question of a US court injunction and whether this could be lifted. There was always the possibility that the injunction might be lifted within a reasonable time. For BAT, there was never any reasonable possibility of getting US regulatory approval in the UK bid timetable; the bidder was asking for an extension. I think there is a distinction."

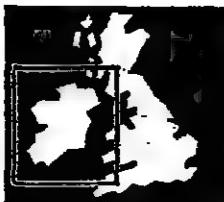
"It is true that Minoro did not ask, as the Sir James Goldsmith/Hoylake consortium did, for permission to let its offer lapse and then restart if the US hurdle could be overcome. But if someone does not ask the right question, that surely should not be a reason for giving the wrong answer."

"I was not unhappy about the decision which was reached in the two cases," Mr Calcutt says.

"And he is quick to stress that the BAT decision does, at least, seem a sensible way of proceeding as cross-border transactions come to dominate the bid scene. "We have got to take on board the fact that we are dealing with the international field... Our thinking is probably in its infancy."

The Panel chairman pauses, contemplating the task. In the peace of a Cambridge afternoon, the City hothouse seems a million miles away. "The international question

# EUROPEAN FINANCE AND INVESTMENT



Ireland has ambitions to win a profitable share of the European market in financial services, with improved telecommunications technology intended to offset geographical disadvantages. Financial services are also seen as an important chance to develop new areas in skilled labour.

THESE ARE heady times in Ireland. There is talk of an economic revival. New car sales, particularly of luxury models, have never been better. At one stage in January, Mercedes dealers reported running out of stock.

Much emphasis is being put on Ireland's emerging role in Europe. Ireland holds the Presidency of the European Council for the current six-month period and has briefly been transported to the centre of Europe. In June, Dublin will host a summit meeting of EC countries.

Dublin's International Financial Services Centre, nearing completion on the banks of the River Liffey in the centre of the city, is seen as a symbol of the new Ireland. It will play a central role in Ireland's ambitions to gain a substantial slice of the growing European market in financial services.

In the old days, the value of the punt — the Irish pound — was as unpredictable as the Irish weather. Now, 10 years after the historic break from sterling and the subsequent decision by Ireland to leave the UK and go into full membership of the European Monetary System, it is strong and stable.

By hitching its monetary fortunes to those of the Deutsche mark, Ireland has confirmed its European credentials and signalled its intention to build up its continental connections.

Technology is being brought into play in order to offset the country's geographical disadvantages. Ireland's telecommunications, not so long ago something of a businessman's nightmare, have been radically improved and are now the equal of anywhere in Europe.

But it is certainly not all good news. A walk through Dublin's streets provides a snapshot of the present state of economic performance. In parts of the city, there has

been a property boom over the last two years. New office buildings are being developed. Georgian terraces are being restored. The gentrification of the well-heeled shopping area, south of the River Liffey, continues.

But progress in other areas, particularly on the north side of the Liffey, is not so impressive. Many streets are full of run-down or boarded-up houses. Building sites have become desolate wastelands. So goes the Irish economy, with an excellent performance in parts — but progress has been patchy and still lacks a firm foundation.

There can be no doubt about the achievements of the past few years. At the beginning of the 1980s, inflation was more than 20 per cent, the balance of payments deficit was growing larger by the year, and Exchequer borrowing was out of control, with a debt crisis of Latin American proportions on the horizon.

Ireland enters the 1990s, however, in considerably better shape. A comprehensive programme of Government

spending cutbacks has cut the Exchequer borrowing requirement down to 2.4 per cent of GNP. Inflation is officially forecast to be little more than 3% this year. Exports have shown their best ever growth, up from £10bn in 1987 to £12bn in 1988 and an estimated £14.5bn last year. The trade surplus is now running at well over £250m per annum.

The state has historically acted as the engine of growth in Ireland. Yet despite a broad range of government cutbacks in recent years, there has been substantial overall economic growth. In each of the past three years the Irish economy has grown by an annual average of nearly 4 per cent.

There have been other achievements. The tax collection system has been reorganised and revenues have increased considerably. The new economic confidence has been reflected in moves to do away with Ireland's long-standing exchange controls. Irish interest rates, though now up to 12 per cent, have finally been decoupled from Britain's. It all adds up to what's

been described as "a remarkable turnaround in both domestic and foreign confidence in the Irish economy."

According to Mr Albert Reynolds, Ireland's Minister for Finance, "the national morale was never as high."

But Ireland has a lot of catching up to do. The profitability of earlier years is still being paid for. The national debt, paid at £25bn (servicing charges alone are more than £25m per annum or £640 a week for every worker in the country) is a serious brake on development.

Ireland's continued economic growth is heavily dependent on export performance. Between 60 and 70 per cent of industrial production is exported. A recession elsewhere, particularly in Britain, which accounts for 34 per cent of exports, could cause Ireland to stumble.

The Government, however, has yet to deliver on its side of the bargain. Meanwhile, a modest improvement in the pace of job-creation has not kept pace with population growth. Ireland's unemployment rate is now 18 per cent, twice the EC average. Emigration, the destructive historical curse for Ireland's economic and social ills, has returned to plague much of the country. About 40,000 people are leaving each year, and, since 1982, one citizen in 20 has left.

The Irish tax system has tended to dictate against job creation. There have been some reforms, and tax rates have come down. Over the past two years the standard rate of income tax has fallen from 35 to 30 per cent. But Irish workers, particularly those in the PAYE sector, are still among the most highly taxed in Europe. In return, they receive public services which are at best mediocre, compared with those of many EC countries. It is recognised by the Irish

Government that failure to harmonise tax rates with those typical of the rest of the EC will damage the country's prospects. Rates are being edged down, as in last month's Budget, but there is a long way to go, and the burden remains especially high on the middle-income white collar workers. This could interfere with the plans for expanding the financial services sector.

The original aims of Dublin's International Financial Services Centre were job-creation and urban renewal. Earlier investments in manufacturing have been criticised for being capital-intensive, rather than labour-intensive. The development of the financial services sector represents in part an attempt to change the emphasis. The Government can congratulate itself on developments so far. To date, more than 80 companies have been approved to trade in the Centre. While Irish institutions have led the way, the Centre has attracted many leading international names. Those already committed to the Centre have promised more than 1,500 jobs over the next three years.

The Government points to the 10 per cent corporation tax and other fiscal advantages of the Centre. Most of all, it emphasises that with 50 per cent of the Irish population under the age of 25, there is a pool of freshly-educated people available.

But some institutions will be looking for people who have experience in sophisticated financial trading. That might mean bringing numbers of Irish dealers back from London: Irish people who have established themselves overseas might not be willing to re-enter the high domestic tax regime. Ironically, it may be easier to attract foreigners who, if well-advised, can escape the worst impact of Irish tax rates.

There are also questions about the regulatory aspects of the Centre. In recognition of Ireland's peripheral location and the need to develop its industry, the EC has allowed Ireland a continuance of its 10

per cent corporation tax until the year 2000. Originally restricted to manufacturers, this concessionary rate has been extended to specified financial services activities.

Since joining the EC in 1973, Ireland has received a proportionately higher level of Brussels funds than any other EC country. There are some who would say much of this money has been misused, and has been spent for short-term political gain rather than on projects capable of generating lasting economic dividends.

A considerable amount of recent academic study points to the fact that despite the recent improvement, Ireland's economic performance in the longer term has been poor, compared with many other countries. Professor Joseph Lee, of University College, Cork, whose new book appraising Ireland's twentieth century performance, says the country's traditional grievance against history has been replaced by a grievance against geography, particularly in the context of the EC.

KIERAN COOKE

# Ireland



Taking shape: the new International Financial Services Centre in Dublin

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## IRELAND 2

## Political and economic power rests in Dublin

THERE have been a few turbulent times in Irish politics over the past 12 months. In the middle of last year, Mr Charles Haughey, Prime Minister and leader of the Fianna Fail Party, called an election. In office for just over two years, Fianna Fail seemed certain of winning.

Opinion polls had shown that the Government's policies of cutbacks and fiscal belt tightening, mainly aimed at controlling the £25bn national debt, were supported by a broad section of people.

Mr Haughey's personal popularity had never seemed higher. But the unexpected happened. Fianna Fail lost votes in key marginal constituencies and won only 77 out of the 165 seats in the Dail, the Irish Parliament. Mr Haughey had boasted that Fianna Fail had "saved the country from bankruptcy." He had talked about the return of economic confidence. But the electorate was unimpressed. Voters used the elections to direct anger about local issues at national politicians.

Mr Haughey's Government was accused of letting the health service go into decline, of neglecting a whole range of local services, of being obsessed with the macro-economic picture while ignoring the effects of Government's cutbacks at the local level.

Mr Haughey was forced to eat humble pie. For the fifth time the Irish people had failed to give him a parliamentary majority. Mr Haughey was forced, briefly, to step down.

For Fianna Fail, the events



Prime Minister Charles Haughey: "Politics is my life".

Visitors often remark on the overwhelming cynicism they find in Irish political life. Even 16 per cent unemployment and continuing large scale emigration seem to be accepted with little show of public anger.

The system, at present, does not allow for radical change. Ireland has little local government. There was anger at what was seen as the lack of local consultation over Ireland's application for nearly £300m of EC Structural Funds, designed to help development in peripheral areas.

Almost all power, political and economic, rests in Dublin. An intricate system of patronage and "clientelism", not policies, wins politicians their votes. The danger is that a large slice of the population, particularly the poor and the unemployed, feels it has no political voice.

For the time being, Mr Haughey, 54, seems secure. He survived a serious illness at the end of 1989 and seems to have regained his enthusiasm for his work, particularly his present role as Prime Minister in charge of Ireland's presidency of the EC.

When asked recently if he would retire at the end of the Presidency in June, Mr Haughey's reply seemed clear - "politics is my life. What else would I do?"

But as time goes on there is talk of the succession. Waiting eagerly in the wings are Mr Albert Reynolds, Minister for Finance, and Mr Gerry Collins, Minister for Foreign Affairs. Mr Bertie Ahern, Minister for Labour, is seen as a younger, outside contender for the Fianna Fail party mantle.

Mr Reynolds is a comparative newcomer to the Irish political scene. In previous incarnations he has been an owner of dance halls, a meat trader and still runs a multi-million pound pet food business.

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The FSIA has been accepted by the Government as a broadly-based lobbying group," says Mr Niall Crowley, a founder and former chairman of the association.

"We do not operate in a narrow lobbying sense. We are concerned with issues which affect the whole of the industry, rather than individual segments of it," he says.

The financial services area is extremely competitive, and there are many sources of potential friction among the various organisations which make up the industry.

The FSIA provides a forum in which differences can be identified and resolved, and it acts as an umbrella organisation for the industry which can interact with government.

The association was one of the first groups involved in promoting the idea of an international financial services operation in Ireland.

In 1986, we worked with other organisations, such as the Industrial Development

Prospects for the International Financial Services Centre are encouraging, says Barry Riley

## Outlook for new centre appears bright

ON THE banks of the River Liffey, in a previously rundown district of the city, the first building in Dublin's International Financial Services Centre is approaching completion, on the site of the old Custom House Dock.

This first unit, managed by the Allied Irish Banks Group, offers 100,000 square feet, out of some 700,000 square feet of office space now under construction, with an eventual total of 1m square feet by 1992. The overall cost of the project, as occupants install the latest high technology, could run to £450m, making it Ireland's biggest-ever development.

All the signs are that the scheme, skilfully marketed by the Irish Development Authority around the globe, is achieving great success.

As many as 84 companies have received approval for activities in the Centre, and many others are involved in preliminary talks. Some 68 are at present trading off-site as they are permitted to do pending the availability of space within the development.

Brendan Russell, head of the IDA's financial services programme, talks enthusiastically about the IFSC's prospects. He anticipates that another 100 projects will be recommended over the next 18 months.

"We are delighted with the way it's going," he says. "Our target of 5,000 jobs by the end of 1992 will be easily achievable."

A leading Dublin stockbroker, Dermot Desmond, chairman of NCB Group, was a prominent supporter of the Centre from the beginning.

"We've passed the critical time now," he suggests. "We can make this as big as we want it."

But he adds that there will be a need to be flexible, at a time when financial services are driven by the unpredictable forces of technology.

Eventually, he thinks, the Centre will be dominated by businesses that are not even thinking about at the present time. He points to the way that corporate treasury functions, for instance, are being attracted to the favourable environment of the IFSC.

The enthusiasm of Dublin financiers is understandable,

Secondly, there is an element of underlying confusion over whether the IFSC is a financial regime or an urban renewal project. Firms are required to move into the Centre within six months of space becoming available.

Obviously this is necessary in order that the development should prove viable. But there is the risk that the size and nature of the international financial services industry in Dublin could be unnecessarily constrained by the physical dimensions of the Custom House Dock Site itself.

In fact, adjacent land downstream may well be made available for further development, and no doubt later firms could be permitted to remain off-site for a protracted period. All the same, costs could be fairly high, and might encourage financial services firms to concentrate on employing small numbers of highly-paid, highly-skilled professionals when Ireland's more pressing need is for many thousands of lower grade jobs.

Ideally, the "front office" operations in the Centre will be twinned with labour-intensive "back office" elsewhere in Dublin or indeed in the Republic at large. But this will require complex rules to prevent leakage between the domestic and international sectors.

A key attraction of the Centre is the availability of a 10 per cent tax rate for qualifying companies. This is part of the low tax regime first applied to manufacturing companies in Ireland, and now being extended selectively to

service companies.

The 10 per cent rate has been agreed by the European Commission up to the year 2000 but not beyond. This spring the Irish Government will be considering the strategy for the period after 2000, and discussions will take place with the Commission during the summer.

Albert Reynolds, Minister for Finance, is adamant that Ireland's problem of "peripherality" in relation to the rest of the EC will justify continued concessions so that it can have a chance of coping with its main disadvantages.

"We're going to need something," he insists.

He points out that Ireland put immense sums into bringing its telecommunications systems up to high specifications during the 1980s - "this is part of the payoff from making this investment," Mr Reynolds says.

In deference to its fellow EC member-states, Ireland is taking care to regulate its new Centre carefully, mainly through the Central Bank of Ireland, and only top quality firms are being allowed in. The emphasis is firmly on job creation, and brass plate operations will be excluded - "we don't want to promote it as a tax haven," insists Mr Reynolds.

The risks of tax-driven activities were highlighted by a minor skirmish with Luxembourg last month when the Grand Duchy hit back at lending schemes between Luxembourg banks and Irish leasing companies in Dublin and Shannon. As much as 10.5m may

have been involved in reciprocal deals which sheltered the profits of Luxembourg banks and provided artificially cheap finance for the leasing business.

The main disadvantages are very high personal tax rates, and the lack of convenient morning and evening flights to many important Continental centres.

The progress of the IFSC is steered by a committee which draws on many representatives of the financial community.

One is Ron Bolger, a partner in the leading accountants KPMG Stokes Kennedy Crowley - "it's a very exciting and interesting committee to sit on," he says, insisting that it adopts a flexible and unbureaucratic approach.

He points to the beginnings of a strong Japanese presence, but the British have been somewhat reluctant to set up in Dublin. The French have been slow too, although he claims "they are beginning to see regular visitors from France."

The outlook for the Dublin Centre certainly appears to be bright. The double objective of attracting offshore financial services businesses and revitalising a decaying part of town (albeit within a few minutes' walk of O'Connell Street) is being achieved.

But the Ireland-Luxembourg leasing tax rumpus, and the decision last month by Albert Reynolds in his Budget to impose a 3 per cent front end tax on all acute purchases by Irish residents, suggest that success at the Custom House Dock site will not be achieved without some stress and strains.

His employees are "very di-

### The Financial Services Industry Association

## Trend-setting forum

THE FINANCIAL Services Industry Association (FSIA) was established in 1984 to promote and develop the rapidly expanding financial services industry in Ireland.

The association is the first of its type in Europe, and it represents organisations from all segments of the industry including banks and building societies, stockbrokers and insurance companies.

The FSIA has been accepted by the Government as a broadly-based lobbying group," says Mr Niall Crowley, a founder and former chairman of the association.

"We do not operate in a narrow lobbying sense. We are concerned with issues which affect the whole of the industry, rather than individual segments of it," he says.

The financial services area is extremely competitive, and there are many sources of potential friction among the various organisations which make up the industry.

The FSIA provides a forum in which differences can be identified and resolved, and it acts as an umbrella organisation for the industry which can interact with government.

The association was one of the first groups involved in promoting the idea of an international financial services operation in Ireland.

In 1986, we worked with other organisations, such as the Industrial Development

Authority, in developing the thesis that international financial services were tradable like manufactured goods," says Mr. Crowley.

"Before the 1987 general election, we made representations to all the political parties, making the case for treating international financial services as exports.

A survey undertaken by the FSIA at the end of 1989 showed that while many financial services have little or no import content, and they can be set up relatively cheaply. The idea was welcomed by the incoming Government, which subsequently devoted considerable resources to developing the financial services industry.

The FSIA has since turned its attention to related matters, such as exchange controls, the training of specialists for work in key areas of the industry, and regulation.

At present, the Irish financial services industry is regulated by three separate authorities. The Central Bank is the main regulatory body, supervising banks and building societies, and the forward market.

Two government departments are responsible for insurance companies and the stock exchange and gilt market.

The FSIA would like to see more unified regulation, and a greater degree of co-ordination between regulators and the industry - "we have been examining regulation in other countries, such as Norway,

Luxembourg, Denmark and Singapore, to learn how to establish a framework for a more unified regulatory system," says Mr. Crowley.

The association has also been active in outlining the case of the industry to Telecom Eireann, the state telecommunications organisation.

A survey undertaken by the FSIA at the end of 1989 showed that while many financial services were satisfied with recent efforts to update the telecommunications system, further improvements such as the introduction of a central fault-handling service would be necessary to meet the industry's future requirements.

In addition, the association has held discussions with the European Commission concerning the preparation of EC directives for the financial sector.

"I think the Irish Government has recognised the role that financial services can play in providing employment and contributing to economic expansion generally," says Mr. Crowley.

"The FSIA is now concentrating on ensuring that we have an environment in which the financial services industry can continue to grow, to maintain the momentum that has been built up over the past five years."

John Maher

## Participating companies

INTERNATIONAL financial services companies at the Financial Services Centre, Dublin - and their proposed activities as announced on January 16, include the following:

- ABN International Financial Services Co: international asset financing, fund management and securities activities.
- Alexander and Alexander: risk management and captive insurance management services.
- Allen, McGuire Partners: management buyouts and leveraged buyouts.
- Allied Irish Banks: international treasury, investment management, asset financing.
- Allied Irish International: investment banking services.
- Allianz: re-insurance broking; re-insurance broking, captive management, insurance management services.
- Aon Securities: fund management.
- Dayco International: investment structuring.
- Dresdner Kleinwort Wasserstein: asset management, financing, trading, risk management.
- Euro American Group: fund and management and insurance services including captive insurance management.
- Bank of Ireland: treasury corporate finance, investment management, asset financing.
- Bank of Nova Scotia: general banking services.
- BBL Finance Ireland Ltd: general banking services.
- BCI, Entertainment Corp: financial services; the entertainment industry.
- BMV AG: captive insurance operations.
- BNP Paribas: asset financing.
- Caisse d'Epargne: asset financing.
- Caltex: insurance, captive insurance.
- Ericsson Treasury (Irl): asset financing, treasury management and related activities.
- First Call: foreign exchange, derivatives, options, broking.
- Flannery Foreign Exchange and Currency: foreign exchange, derivatives, options, broking.
- General Electric Finance B.V.: corporate treasury management.
- Hibernia Group: reinsurance, non-life insurance, including M.A.T., asset financing, fund management.
- ICBC Finance Co: fund management, leasing, lending, trade financing.
- Capital International Financial Services: asset finance arrangement and advisory services.
- Chase Manhattan Bank: securities trading, bank treasury, group treasury.

Source: IDA.

- Axa: insurance and related services.
- K.B. Financial Services Ireland (KBFS): asset financing.
- Lewis Mardon Group: corporate treasury.
- McInerney Properties: group treasury and treasury advice services.
- MTM: asset management.
- National Trust & Banking Corporation: to be announced.
- Nivad Computer: international factoring, international insurance consultancy.
- North Wall St Investment Co: asset financing.
- Orde Ireland: asset financing.
- Reflex International: asset financing, emphasis on IBM equipment.
- Seamus International (Ireland): investment management.
- St. Patrick's International: reinsurance management.
- SISNER (Scandinavia): insurance services; captive insurance management.
- Sunlife Finance (Dublin): activities to be announced.
- Ulster Investment Real: international lending.
- Wang International Financing: asset financing with emphasis on Wang equipment.
- White's Wrightson Management (Dublin): captive insurance management.
- Wunderbergische Portfolio: investment management.

As indicated in the report above, as many as 84 companies have received approval for activities in the International Financial Services Centre, and many others are involved in preliminary talks. Around 40 are at present trading off-site as they are permitted to do, pending availability of space within the development.

Source: IDA.

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 Ulster Bank Group



## IRELAND 4

## EUROPEAN FINANCE AND INVESTMENT

## PROFILE: ULSTER INTERNATIONAL FINANCE

## Working hand in hand with its parent

NOTHING better illustrates the sometimes slightly surreal nature of Dublin's financial services centre than the position of one of its first tenants, Ulster International Finance.

UIF is a subsidiary of Ulster Bank, and is the bank's arm in the centre — generally known

**British Institutions have been slow to see the advantages of the Dublin centre**

as the Custom House centre from its location on Custom House Dock.

But Ulster Bank is itself a wholly-owned subsidiary of National Westminster. UIF admits it will be doing the bulk of its business through the NatWest network, and also admits that many people in NatWest have never heard of UIF, or even of the Custom House centre.

"There is a marketing job to be done within the NatWest group to have them examine the benefits of the Custom House for them," says Michael Drew, assistant director at UIF in charge of marketing.

The senior people are beginning to recognise the track record we have established since we began operations. We are getting more and more calls from people who have heard about us and want to know what the possibilities are."

Patrick Flynn, UIF's manager, says British institutions have been slow to see the advantages of the Dublin centre — "The Germans and the Japanese have been taking the lead, but I think awareness is growing fast among UK companies. The sheer number of projects is making people take it seriously."

Ireland's membership of the EC gives Dublin advantages over the Isle of Man or the Channel Islands which are not full members, he says.

UIF's main activities are tax-based lending and asset financing, mainly leasing. But it is also developing treasury functions for corporate clients and plans to market unit trusts

from the centre.

Ireland has double taxation treaties with over 20 countries, says Mr Drew — "this allows us to put together tax-efficient packages for clients in those countries, making use of the centre's 10% tax rate."

"So far, UIF has concentrated away from the UK, on Germany, France and the Scandinavian countries and does mostly with NatWest clients," he adds.

"We believe we have good products, but we need NatWest to provide the introductions, so we often go on joint calls with the NatWest representatives. They can also do the initial screening for us so that we are not wasting time talking to the wrong people."

There is considerable scope for UIF in carrying out treasury functions for companies which may be too small to do it themselves.

"This is something the Industrial Development Authority (IDA) is encouraging in the Custom House because of its employment content," says Mr Flynn. "NatWest's corporate customer-base makes it a major opportunity for us."

They are also working with another bank subsidiary, Ulster Investment Managers, to

**"We have good products, but we need NatWest to provide the introductions"**

establish fund management in the centre — "UIF have a lot of experience in this field in Ireland. They are actively working with us in developing plans to market unit-trust type products from the centre," says Mr Drew. These would be aimed mainly at the UK market but could be sold anywhere in the EC except, ironically, Ireland.

Custom House companies are not allowed to operate domestically — "we have put a lot of effort into developing new products and services," says Mr Drew. "One of our main jobs is to think up further projects for NatWest and to sell the ideas internally

within the bank.

"In this they are helped by the willingness of the Irish authorities to licence new products and services from existing operations. They take a very flexible line. There are very few rigid rules, apart from the regulatory ones, and that

**"We have to put a lot of effort into developing new products and services"**

makes sense for a new concept like this," he adds.

Although the Custom House has succeeded in attracting close to 100 companies, there is some criticism of the employment content — job creation being one of the main justifications for the concept. UIF, for example, has a staff of only eight. But they argue that numbers will expand and that there are spin-off jobs outside the firm.

"Our legal and accountancy advisers got a lot of work from our activities," says Patrick Flynn, "although they are not on our payroll. There is also a lot of administrative work, which employs people in Ulster Bank."

UIF, like all the other Custom House tenants, is not actually on the docks site because the first block will not open until the spring. Instead, it operates under the licensing terms from offices in Dublin's Canada House, above the Canadian Embassy.

"We will probably be moving in 1991," says Mr Flynn. "We have to go there under the licensing rules but the rent will probably be more expensive than here."

Some people talk about the advantages of a concentration of brainpower in the centre, but I don't think it will happen like that. However, Ulster Bank will probably move its treasury and fund management operations to the new offices, even though they do not come under the special Custom House centre terms."

Here we look at two other entrepreneurs who are making their international mark.

Brendan Keenan

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## Barry Riley looks at competition in captive insurance

## Irish eyes on Continental market

WITH THE establishment in Dublin by BMW, the German motor group, of a captive insurance company to cover its worldwide insurance requirements, Ireland has signalled its ability to carve out a slice of the rapidly growing but competitive business of offshore insurance.

There is nothing new about captive insurance, and various other centres are well established, notably Bermuda (which plays host to well over 1,000 captives) and the Cayman Islands in relation to the huge American market. In Europe, Guernsey and the Isle of Man have been developing this business for a number of years, while Luxembourg is also prominent in reinsurance circles.

Mr Hannagan accepts that it will require a substantial marketing effort in order to put Dublin on the captive insurance map.

### It will require substantial marketing to put Dublin on the captive insurance map

"We need to get some of the major international names in," he says. But the quality of the companies he and others are negotiating with is, he insists, "tremendous".

"Once the top names have been attracted there will be a snowballing effect," says Mr Hannagan. "Every captive that is found is a little bit of PR for the concept of captives."

Captive insurance offshoots are set up by large companies (sometimes by several companies acting jointly) which pay substantial insurance premiums — say, of £250,000 a year or more.

IT'S a long way from filling in teeth in Cork to developing luxury hotels in Los Angeles and business premises in central London, but that is what Mr Robin Power, former dentist turned worldwide property developer, has achieved.

Mr Power, 45, founded Power Corporation in 1973.

"Times were tough as a young dentist — my partner was bald and patients always wanted treatment from him, thinking he was older. So I started speculating in property in the Cork area."

Things were not much easier in the property business. Interest rates were more than 20 per cent, but with Ireland's entry into the EC, substantial amounts of money were coming into the economy.

Others, such as Mr Larry Goodman, head of Goodman International, a privately-owned group which is Europe's largest meat-processing concern, are perhaps less well-known outside Ireland.

Here we look at two other entrepreneurs who are making their international mark.

## PROFILE: CRAIG MCKINNEY

### Singular honour

THESE ARE many successful Scottish financiers, but very few who made their name in Ireland. Perhaps only one — Craig McKinney, founder and chairman of Woodchester Investments, qualifies for this singular honour.

Mr McKinney was born in Larne, Northern Ireland, and dropped out after a year studying commerce at Edinburgh University — "I thought it was a ridiculous course. The first three lectures were about the development of the water-mill in industry."

His connections with Ireland began in 1970 when he went to work for a company called Hamilton Leasing, which was establishing an Irish operation.

In 1976, the Irish company came up for sale. Mr McKinney and his brother tried to organise a management buy-out, but were unable to raise the cash. Instead, they founded Woodchester and nine years later bought out Hamilton. It is the deal which gave him most pleasure in his career.

Woodchester, though, has become more than a leasing company. McKinney has built it into a significant Irish financial services group, capitalised at £100m and ranked seventh by size on the Dublin stock exchange.

The key deals in broadening Woodchester's base were the acquisition of two small banks, Bowmaker and Trinity, giving it not just a valuable hire purchase business, but a banking and foreign exchange dealing licence, and a fully-fledged treasury department.

Despite its impressive profit and share price performance, Woodchester has always attracted more than the usual number of doubters — "when I paid £120m for Bowmaker, everyone said I was mad," says McKinney.

Next year the profit contribution from the bank is expected to be £15m. McKinney has certainly shown his Irish rivals, who tend to share the national tendency towards flamboyance, the virtues of Scottish commonsense.

Woodchester's Dublin headquarters, despite being in a street called Golden Lane, is plonked in the middle of Corporation flats in about as unfashionable an area as possible. But he has been able to generate a lot of cash selling the plush head offices of his acquisitions and moving the slimmed-down workforces to

that is managed by a rival broker, Sedgwick.

There has been a tremendous increase in awareness of the possibilities of captives in Europe," he suggests. "They've only been scratching the surface."

Mr Hannagan accepts that it

will require a substantial mar-

keteting effort in order to put Dublin on the captive insurance map.

A captive can achieve better

premium rates than its parent if it can deal directly with the wholesale insurance markets rather than through brokers. It may also be able to manage specialised risks more effectively, and can generate tax savings.

Dublin's big selling points are that it is within the European Community, and is able to offer captives the special 10 per cent corporation tax rate which is applicable to all companies within the International Financial Services Centre, at least up to the year 2000.

Also, it is very close to London, with its huge insurance markets, and can offer a sophisticated range of support services.

A weakness, perhaps, for a centre which seeks to serve Continental Europe, is that German and French are relatively rarely spoken in Dublin with any fluency, and attention may need to be paid to this if Irish financial services are to develop to their full potential.

The direct employment created in this business is modest, say, two people per captive. But work is also generated for accountants and lawyers, and the banks will benefit, too. Then there is the general spin-off in the form of hotel and restaurant bookings as

overseas directors arrive for regular board meetings and management conferences.

Compared with Luxembourg, Dublin is cheaper, and in captive insurance can offer facilities for direct insurance as well as reinsurance.

The tax position is also favourable in that there are double tax treaties with many important countries so that profits can be repatriated with

A weakness is that German and French are rarely spoken with any fluency.

Because of the European Community agreements there are hopes that American multinationals which at present channel their risks through

Bermuda captives will consider the possibility of setting up subsidiary captives within the Dublin IFSC to handle the insurance business of their operations in Ireland and elsewhere in the community.

The marketing effort is intensifying. Mr Hannagan says he was pleased that as many as 100 delegates from nine EC member states turned up last month to an Alexander Stenhouse seminar in Dublin on captive insurance opportunities.

"Now company risk managers will ignore Dublin at their own peril," he claims.

inary System, which reduces the exchange rate risks compared with, say, dollar-based centres, or even the sterling-based centres, at least until such time as the UK joins the Exchange Rate Mechanism of the EMS.

Certainly Dublin is being taken very seriously by the major international captive managers, and the Swedish-based SINTEX and American International Group, for instance, have set up in addition to the two firms already mentioned.

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"Now company risk managers will ignore Dublin at their own peril," he claims.

"Power, former dentist

finances many of his deals.

"The Japanese understand the sort of supermarket retail mix that we try to achieve. They appreciate our 'hands-on' style," he says.

Power closely watches space in its developments, it sometimes goes as far as to examine menus and test their suitability.

The corporation also uses, wherever possible, its own in-house pool of architects.

Power is expected to announce profits of £10m for last year and has recently established an A&E facility in New York, allowing US investors to invest in the property group.

Mr Power feels as his company's activities expand business is likely to become easier.

"There are not so many businesses at the top end of the property market, so it is becoming competitive. We cover our risks all the time — and from day one, we've never had a problem with the banks."

Kieran Cooke



McKinney: university drop-out

The same techniques were applied to Woodchester's British acquisitions, Milestone Leasing and Moorgate Mercantile, bought in 1988.

We have shown that we can manage companies and aren't just laid-back providers of capital," says McKinney. But it was the venture into the UK which combined to give Woodchester the worst six months in its history. The main problems were not Woodchester's but those of the B&C financial conglomerate, which originally controlled 62 per cent of the Irish company.

If autumn it was confident, it expected that the French bank Credit Lyonnais would buy the stake at £22.05 per share. But the deal fell through, ostensibly because the French Treasury vetoed it. Yet a month later Credit was back, buying the shares at £21.05 a share.

Given the difficulties in valuing leasing companies, some believed that was Credit's real calculation of Woodchester's worth. But the deal is a bit more complicated than that. The share price has since climbed to £22.15, on the belief that the French will buy further 80 per cent at around £22 per share, leaving the balance with the institutions.

Credit Lyonnais would therefore have replaced B&C as majority stakeholder, and a better one from McKinney's point of view. "It is the twelfth biggest bank in the world and can give us access to the Continental markets."

As if to make the wheel turn full circle, McKinney has appointed three senior executives to develop financing for Lookers' agricultural machinery division — said to be the biggest in the western world.

Where did they come from? A company

## EUROPEAN FINANCE AND INVESTMENT

IF THE Irish can manage it, it will be quite an achievement to turn Dublin into an international investment centre.

Until little more than a year ago, after all, Ireland was ringed around with foreign exchange controls on overseas portfolio investment. And even when Ireland was within the sterling area, its financial institutions lived in the shadow of their more powerful rivals in London and Edinburgh.

But most domestic controls on overseas investment have now been lifted, and Ireland is committed to the single market in financial services which the European Community will introduce at the beginning of 1993.

Ireland is now making a two-pronged bid to become an important centre for international fund management. Last year it rushed through legislation to comply with the EC's Ucits Directive, achieving this by June 1 - several months ahead of the UK and Luxembourg. Ucits are retail investment funds - the acronym stands for Undertaking for Collective Investment in Transferable Securities.

In addition, however, attempts are being made to attract other kinds of international investment funds, notably those of a wholesale nature.

The aim, moreover, is to make Dublin into a place where genuine investment decisions are made, as opposed to Luxembourg, which hosts many hundreds of funds but which is essentially an administrative centre, delegating the investment advisory side to London, Switzerland, Tokyo and elsewhere.

Asset management has therefore become one of the important focuses of Dublin's International Financial Services Centre. Ucits promoted by IFSC companies are free of IFSC taxes (they do not bear even the tax of 0.06 per cent of assets charged by Luxembourg), but may not be sold in Ireland.

Non-Ucits investment companies are less easily marketable, and will be liable to a 10 per cent tax on income. But at the same time they will be able to gain access to Ireland's network of double tax agreements with 21 countries. This means that withholding taxes suffered abroad may in many cases be reclaimable, which represents a potentially important advantage over Luxembourg.

Ireland itself has a well-developed stock market. The

Irish Stock Exchange is in fact a unit of the international

## Quest for international fund management

## A strong bid for business



Stock Exchange based in London. As such, it has local autonomy, but at the same time has access to the technology and international connections of the London market.

The Irish Government's increasing emphasis on the funding of investment through private capital has encouraged the exchange to promote the advantages of a listing with renewed vigour.

"At present there are too few instruments for people to invest in," admits Tom Healey, general manager of the Irish Stock Exchange. Including both the fully-listed and junior markets, about a hundred stocks are traded - "we are trying to encourage companies to think of going public," he says.

With a capitalisation of some £50bn at the recent peak, the market is among the minnows of the European scene. The loss of the listing of Irish Distillers after a French takeover was a blow, and the market has not yet benefited from any significant privatisation issues, although Irish Life is a candidate for the medium term, and maybe Aer Lingus, too.

On the other hand, business in Irish Government securities has benefited from overseas interest, especially from German investors. These have seen attractions in the higher returns earned on Irish pound bonds compared with deutsche-mark securities, given that the exchange rate risk has been reduced because of the Irish currency's increasingly secure position within the European Monetary System.

In one respect, claims Mr Healey, the Irish exchange is unique in Europe: it does not fear foreign competition, having successfully defended its patch against London, which transacts only about 5 per cent of the business in the major Irish stocks. It remains to be seen, however, whether last week's move into Irish stocks by Winterflood Securities in London will eat into Dublin's volumes. And it is questionable how much the domestic exchange will have much to gain from the growth in fund

management in the IFSC, given that the various international firms will concentrate on playing the global markets. Nevertheless, J & E Davy, one of the 16 member firms of the Irish Stock Exchange, is setting up Davy International within the Centre to develop offshore stockbroking opportunities.

The big banks will be establishing back-up services such as global custody. They will be aiming to provide administrative services, including valuation and certification, to ucits and other international funds. Under the rules, these services must normally be made available within the Centre.

Ireland has established a new regulatory framework based upon the Central Bank in order to ensure adequate supervision of the expanded fund management sector.

There is provision both for unit trusts (or mutual funds) and investment companies (with fixed or variable capital).

About a dozen Ucits have been authorised so far.

But the conditions attaching to the IFSC make the regulations inevitably rather complex. The waters were muddied a little further last month

per cent tax on all purchases of overseas-based funds, including Ucits, by Irish residents.

This was largely in response to lobbying by domestic unit-linked life assurance companies which feared that competition from abroad would be intensified. The tax was justified as creating more of a level playing-field within Ireland, given that life funds already bear such a 3 per cent front end tax, but there are also fears that the tax will encourage outflows of cash to offshore tax havens.

In any event, fund promoters within the IFSC are required to agree that their "dock site funds" will not be sold in Ireland itself, which is no great sacrifice considering that the domestic market is tiny compared with the potential of the remainder of the EC.

These rules will create problems for the larger domestic operators such as the banks, which are faced with decisions about how to divide up their fund management activities.

They are also in danger of seeing their staff poached by incoming firms, although Investment Bank of Ireland, for example, says that only one fund manager has been tempted away so far.

For the foreign managers, the first hurdle to be surmounted is that Ireland does not have the credibility of Luxembourg as a domicile for international funds, and a major marketing job has yet to be done. The second question mark is over the availability of staff. Experienced fund managers constitute a scarce resource, especially in Ireland, although it is possible that significant numbers of Irish nationals overseas, especially in London, might be attracted back to Dublin given the right incentives. Otherwise, it should be noted that the Dublin City University is springing quickly into action to offer a postgraduate course in investment management and treasury management to help plug the looming skills gap.

Meanwhile, the big advantages of Dublin are that it is an uncrowded financial centre where people are eager and ready to do business, and where fund promoters with good credentials can set up quickly - "we can get funds approved within a few weeks," claims a local consultant.

For firms sweating it out in Luxembourg's long and expensive queues, Dublin could sound like an increasingly good idea.

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## Enthusiasm over Ireland's Presidency of the Council of Europe

## Difficulties in the run up to the single European market

THE ENTHUSIASM with which the Irish Government has taken over the Presidency of the European Council for the first six months of this year has supported a common theme among Irish politicians that "the Irish are good Europeans."

A popular referendum on the adoption of the single European Act in 1987 showed that 70 per cent of those who voted were in favour of further European integration.

Ireland has been a substantial net beneficiary of EC funding since joining the Community in 1973. Last year the Government launched an £83bn economic development plan which included £23bn of Community support

concerned about an anticipated loss of more than £800m in revenue following the harmonisation of indirect taxes throughout the EC.

In some instances derogations have been sought from Brussels. Ireland will not fully implement the EC directive on non-life insurance, for example, until the late 1990s. How-

ever, the approach of the single market is viewed with optimism in some quarters.

The support mechanisms of the Common Agricultural Policy have allowed the agricultural sector to grow steadily since Ireland joined the EC.

Farm incomes have fluctuated, but the food industry, which accounts for about 20 per cent of exports, has found new dynamism over the last two years.

Emigration, at an estimated 40,000 per year, is higher than at any time in Ireland's recent history.

Furthermore, a spate of borrowing over the last two decades has left the Irish exchequer devoting a large proportion of its tax revenue to servicing a national debt of £25bn.

While the balance of trade is favourable, with more than two-thirds of industrial output being shipped overseas each year, the country's exporters are hampered by a transport infrastructure in such poor condition that it prompted a European Parliament report in 1988 entitled: "Transport as a Bottleneck to Economic development in Ireland."

When the Channel Tunnel is completed, Ireland will be the only member state with no land link to the rest of the EC.

While the Government has expressed its enthusiasm for the single market it is also aware that there might be negative consequences.

For firms sweating it out in Luxembourg's long and expensive queues, Dublin could sound like an increasingly good idea.

Barry Riley

effects of the single market has resulted in many companies seeking links with similar enterprises in other EC countries.

A survey by the Confederation of Irish Industry (CII) revealed that by 1992, 40 per cent of companies expect to take over concerns in other member states, 10 per cent expect to be themselves taken

over, while the remainder anticipate involvement in joint ventures or other arrangements.

"Irish industry is very positive about the completion of the single market," says Mr Liam Connellan, director general of the CII.

"As we export most of our output, we have a great interest in the removal of trade barriers. Non-tariff barriers, such as lengthy customs procedures and differing technical standards between member states, have been used to hinder the free flow of trade."

"Given the small size of our domestic market, I believe that imports will increase to about

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Kieran Cooke highlights new facilities for doing business in Ireland

## Big improvement in communications

NOT SO long ago, making a phone call in Ireland was a highly complex operation. Mountains of coins had to be assembled. Handles had to be furiously turned. Machines had to be chastised, operators chatted to and cajoled.

Coins would thud deafeningly away. Only a Pavarotti could find a way through the mush. "Meet me at..." - then a last sickening click and the line was dead. There were probably still people wandering around, puzzling about who they should meet, and where.

But times have changed: telecommunications, the life-support system of the financial services industry, have improved dramatically. Ireland now has a phone system the equal of any in Europe.

The old numbers - like Ballymore 42 and Cooteshall 11 - have disappeared. Even the remotest parts of the country are now on direct-dialling.

There have been many other changes. There has been something of a revolution in Ireland's airline industry; the monopoly of Aer Lingus and British Airways on flights in and out of the country has been broken.

In the last three years Ryanair, the new independent Irish airline, British Midland, Dan Air and others have joined the big national airlines on London-Dublin and other routes. Fare have tumbled and passengers numbers increased dramatically. In 1985, there were 1.85m passengers in and out of Ireland. Last year there were more than 4m.

New airports have been opened in various parts of the country. Before long most important centres in Ireland should have air links with the main European cities.

While air routes have been developed, sea routes have shown little improvement. Passenger services in and out of Ireland are inadequate and some routes have been closed.

Transporting goods across the Irish Sea can still be something of a nightmare.

The Irish Sea remains one of the most expensive stretches of water in the world. A comprehensive freight only ferry service linking Ireland with the European continent is urgently



Dublin - rents for commercial premises compare favourably with other European centres.

needed. Ireland seems to have been waiting for funds from Brussels before embarking on a comprehensive port development programme.

Most traders feel the authorities have delayed things for too long. Those specialising in financial services will be looking for the most part at Dublin, though some will go to Shannon in the southwest.

Rents compare favourably with other European centres. Premium office space in the new Financial Services Centre in Dublin costs under £250 per sq ft.

In some parts of the City of London, similar office accommodation would cost between £280 and £300 per sq ft. Other office space in the Centre is available at under £220 per sq ft and in the rest of Dublin between £110 and £115 a sq ft.

In the Financial Centre at Shannon, rents are about £212 per cent - 30 per cent more expensive than in Britain.

Even the well heeled yuppie might be forced to stop quaffing champagne at Dublin's prohibitive prices (£220 off the supermarket shelf).

The bill for a meal out in Dusseldorf or Rome would be much less than the charge at many Dublin restaurants.

Quality and variety, particularly at medium-range restaurants, is also in short supply in Dublin.

With a population of only 1.5m, Dublin is more a large town than a capital city. Stroll down a street or into a pub and you'll probably meet someone you know.

The city is still rather parochial and lacks the cosmopolitan flavour of most other centres in Europe. It has good theatres and an interesting cultural life, but those expecting London or New York style variety will be disappointed.

Unfortunately, Dublin does

have crime: there is a high incidence of car theft and home robberies - worse than Frankfurt, but a far better situation than New York.

For most people, Ireland's greatest attraction is the lack of crowds. Traffic jams are as yet only an occasional tribulation and not - as in London - a permanent feature. You can walk to almost all appointments in Dublin.

Within half an hour of the capital there is wild, unspoilt countryside.

For the golfer, Ireland offers countless opportunities; for the sailing enthusiast there are plenty of challenges. For the fisherman there is a lifetime's supply of rivers and lakes to discover.

Some people, used to a more frenetic and varied life elsewhere, might find adjusting to Ireland difficult. But others, once smitten, find the country

very difficult to leave.

Useful addresses include:

■ Chambers of commerce:

■ Cork Chamber of Commerce, Carraroe House, Summerhill, Cork (tel: 509044; fax: 26159).

■ Dublin Chamber of Commerce, 7 Clare Street, Dublin 2 (tel: 784291; fax: 90716).

■ Dundalk Chamber of Commerce, 14 The Crescent, Dundalk, (tel: 34033).

■ Banking:

■ Allied Irish Banks, Bankcentre, Ballsbridge, Dublin 4, (tel: 500311; fax: 25220).

■ Bank of Ireland, Lower Baggott Street, Dublin 2, (tel: 75744; fax: 25573).

■ Central Bank of Ireland, 299 Dame Street, Dublin 2, (tel: 716866; fax: 31041).

■ The Institute of Bankers in Ireland, Nassau House, Nassau Street, Dublin 2 (tel: 777199).

■ Investment Bank of Ireland, 91 Pembroke Road, Dublin 4, (tel: 656411; fax: 25505).

## Specialist business training New course for graduates

THE PROUDEST boast of Irish Government agencies and officials charged with attracting foreign investment to Ireland has always been that the country has a young, highly educated and computer literate workforce at the disposal of any potential employer.

But in some areas the workforce has been found lacking. While universities and other third level institutions have produced out an abundance of graduates in general business studies, they have not been equipped for employment in key specialist areas such as investment analysis and fund management.

Now an attempt is being made to overcome this problem. A new post-graduate Masters degree course in Investment and Treasury is being established at Dublin City University.

The course is aimed at supplying enough skilled financial analysts to meet the future needs of the Irish financial services industry.

A series of manpower studies by the Financial Services Industry Association (FSIA) have shown that the number of treasury and investment specialists employed by the industry in Ireland could grow from 500 in 1986 to 1,000 in 1992.

Furthermore, an additional 2,000 specialist jobs are likely to be generated by the new International Financial Services Centre in Dublin.

The FSIA studies indicated that the shortage of specialists could become increasingly serious and could hinder the future expansion of the industry.

"A major concern of people in the industry has been the availability of specialists in sufficient numbers in the future," says Mr. Philip Ryan of the FSIA.

"It can be difficult to get minds concentrated on long-term development, but our surveys revealed that there was a general agreement that the industry was not investing enough in training programmes to meet future staffing needs," says Mr. Ryan.

One of the major problems facing financial organisations in Ireland has been the level of "leakage" from the industry.

Many graduates have been attracted to London by the training opportunities and comparatively high salaries offered by companies there.

There has also been evidence of an increase in staff "poaching," the practice by which companies recruit specialists from other organisations, rather than train graduates themselves.

Such practices can be detrimental to the long-term interests of the industry as they serve to rise salary levels and lower the numbers of specialists available for employment.

The FSIA hopes that the new MSC course at Dublin City University will go some way towards overcoming these difficulties.

"The course is designed to offer graduates an effective mechanism for making the transition from education to industry," says Mr. Ryan.

"We believe that employers who can offer this training will have a competitive advantage when recruiting graduates."

The two year part-time course, which graduates will undertake while gaining relevant work experience with a financial institution, offers training in a range of specialist activities such as portfolio and treasury management, corporate finance and financial reporting, he adds.

Successful participants will be eligible to apply for associate membership of the Society of Investment Analysts, the professional body which has assisted in the design of the course programme.

Dublin City University has received more than 450 enquiries about the course since it was launched last month - "obviously not all graduates of this course will stay in the investment and fund management area," says Mr. Ryan.

"Many will move into management positions in their own or other organisations, while others will undoubtedly go abroad," he adds.

"But we believe that, on balance, employers in the Irish financial services industry will benefit substantially from this development."

John Maher

## AIB INTERNATIONAL FINANCIAL SERVICES LTD. A FORCE FOR INNOVATION



AIB Capital Markets will occupy the first building in Dublin's new International Financial Services Centre (IFSC)

AIB International Financial Services Ltd. has been established specifically to operate in Dublin's IFSC. We specialise in:

- Tax efficient cross-border financing.
- Joint ventures in niche financial services.
- Advice, structures, and sophisticated back office services to banks and multi-national companies setting up operations at the IFSC.

Contact Colm Doherty or Michael O'Hara on +353 1 833377 (from UK: 0001 833377), or fax a request for our comprehensive information pack on the Dublin International Financial Services Centre to +353 1 833554 (from UK: 0001 833554).

We are in a unique position to assist companies wishing to establish at the IFSC. We offer:

- An in-depth understanding of the cross border benefits of the IFSC.
- A highly qualified professional and innovative team.
- The strength of the AIB Group, Ireland's largest bank with assets of over \$22 billion.
- Our experience as the first unit established in the IFSC.



A MEMBER OF AIB CAPITAL MARKETS

## SECTION III

**FINANCIAL TIMES SURVEY**

**Having returned to power with a narrow majority last October, Felipe Gonzalez's Socialist Government**

**has been battered by political scandals, new autonomy threats and an overheating economy. It has begun to placate the unions to protect itself, writes Peter Bruce**

**Gonzalez in a tight spot**

**POLITICAL CYCLES** (or should that be political memorie?) are short in Spain. Only last year the Government and trade unions appeared to have split completely. Mr Felipe Gonzalez, the Socialist Prime Minister, pronounced dead the decade-old three-way accord between Government, employers and unions on wages and working conditions after a successful one-day general strike against his conservative economic policies.

**Fading fast too** was the Basque separatist-terrorist group ETA, which Spaniards were told had lost its political base for the hearts and minds of Basque nationalists.

The Government had also ridden out a series of minor scandals — the deputy Prime Minister's use of a Government aircraft to get him out of a traffic jam at the Portuguese border; the Minister of Defence's use of a Pta 1m loan at public expense and the director of the state radio and TV running up a big clothes bill on her company credit card — with smooth excuses.

The economy was a little overheated but under control. The Treasury had taken appropriate measures to stop the inflow of hot foreign capital



Traditional Spain: Flamenco dancing at the Zebra Club in Madrid; and Williams and Humbert's bodega in Jerez de la Frontera, where 50,000 barrels of Dry Sack sherry are stored



Because of this, suggest some political observers, the Socialists are beginning a slow process of preparing themselves for opposition. Hence the rapid peacemaking with the UGT, which provides the party with its grassroots support. Hence Mr Gonzalez's breezy threat earlier this month to resign if Mr Alfonso Guerra, his long-standing deputy, is forced out of office.

A year later, the Government is doing its utmost to placate the unions, especially its former sister organisation, the Socialist UGT, the nationalist torch in the Basque country and Catalonia has been picked up by once-dicile moderate parties, the Government is embroiled in a damaging corruption scandal and the Bank of Spain has been forced to dictate to banks how much money they can lend after its earlier restrictions were seen to have no effect at all.

Something very odd is happening to the Government. The Socialist Workers Party was re-elected to a third term in office last October with the thinnest possible majority — one seat — in the Cortes, or Parliament, in Madrid. Mr Gonzalez is on record as saying that this will be his last four years as Prime Minister, which is probably just as well because the Socialists, as things stand now, appear to have little chance of winning a fourth overall majority in Parliament when Spain next goes to the polls even though they remain the largest party.

Mr Francisco Ordóñez, the Foreign Minister, said before the poll that he wanted to step down but has been persuaded to stay for the moment. But he is highly unlikely to see out the full four years — and the Cabinet reshuffle when he goes is bound to be acrimonious.

The other thorn has been the influence-peddling allegations surrounding the deputy Prime Minister's brother, who was accused in Parliament of having amassed a fortune worth \$10m in the last few years using his position as Mr Alfonso Guerra's adjutant in Andalucía. Though no wrongdoing has been proved, many Spaniards are suspicious.

It may be much harder now for the Socialists to parade themselves as the party of the poor. Also, the arrival on the national scene of Mr José María Aznar, a bright new leader of the main opposition party, the conservative Partido Popular, may rob the Socialists of many of the inroads they have made into Spain's upwardly mobile "purple" vote since coming to power in 1982.

In the last three months, Mr Gonzalez has also been hurt by demands for greater autonomy from the moderate parties that govern the Basque Country and Catalonia. Both have debated resolutions in their regional parliaments calling for self-determination, an ill-defined objective which nevertheless signals their desire to climb on the (until now) largely radical separatist bandwagon in search of new voters.

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**SPAIN**

legal force but the trend is dangerous for Mr Gonzalez, though not beyond his control so long as his Government is functioning smoothly.

Faced with these new political threats, Mr Gonzalez has turned back to the UGT, the union founded by the Socialist Party just over 100 years ago. An apparently unbridgeable gap had opened up between party and union last year, with

party employees to bargain collectively for their wages in a move that has infuriated employers, the unions have been given the right, for the first time, to "control" individual temporary contracts.

That is very important. The 1985 legislation introducing temporary job contracts vaguely suggested that employers would have to justify the replacement of a permanent job with one using a temporary contract.

At the moment, all new temporary contracts are sent to Inem, the national labour institute, which stores them, but they will now go to the unions. That, employers fear, will lead to endless union interference, and possibly legal challenges, in contracting.

So far, it is estimated unofficially that the Government's

accommodations in the exchange rate mechanism of the European Monetary System since it entered nearly eight months ago. For corporate borrowers and consumers, that means there is little immediate prospect of interest rates falling from their current levels of around 15 per cent.

However, even if Mr Gonzalez has been weakened by scandal, it would be wrong to underestimate the Prime Minister's consummate political skills. He has been in tight spots before and so far he has always fought free.

Mr Gonzalez has an astonishing feel for the country he rules. It allows him to make up policy on the hop, which is always valuable when memory fails.

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Editorial production: Gabriel Bowman Photos: Ashley Ashwood

union leaders accusing Mr Gonzalez of moving economic policy well to the right at the expense of Spain's unemployed and pensioners.

Indeed, the Socialists have managed the transformation of the Spanish economy from its rigid, protected, past to a future that (with notable exceptions in some sectors) easily holds its own now in

decided not to support the Socialist Party in the General and European Parliament elections in 1989. The break seemed complete.

In the last month, however, much of that bad feeling has been swiftly swept aside. The Government has agreed to raise pensions and the minimum wage. It has also agreed in principle to allow public ser-

vice employees to bargain collectively for their wages in a move that has infuriated employers, the unions have been given the right, for the first time, to "control" individual temporary contracts.

The Government's main difficulty in slowing down the economy will be to curb private sector consumption. Figures published recently show an alarming drop in industrial activity in November, but it is too early to extrapolate any trend.

The strength of the peseta is also hurting Spanish manufacturers. Exports grew only 12 per cent to Pta 5.2 trillion last year while imports rose 20 per cent to a record Pta 3.2 trillion trade deficit and a \$1.6bn current account gap — more than 10 per cent higher than expected.

Nevertheless, the Bank of Spain has set itself firmly against weakening the peseta, which has been one of the strongest performers in the exchange rate mechanism of the European Monetary System since it entered nearly eight months ago. For corporate borrowers and consumers, that means there is little immediate prospect of interest rates falling from their current levels of around 15 per cent.

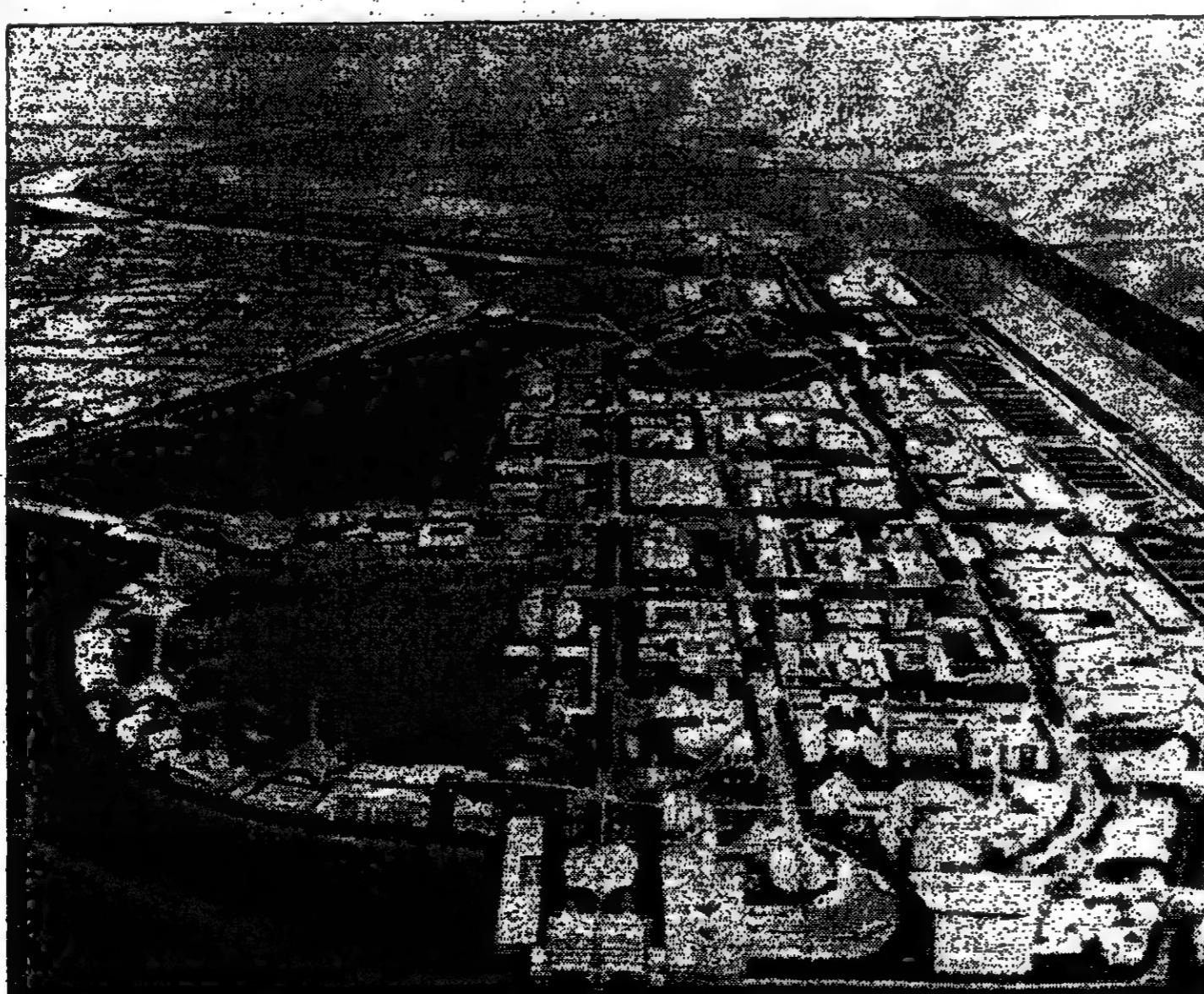
However, even if Mr Gonzalez has been weakened by scandal, it would be wrong to underestimate the Prime Minister's consummate political skills. He has been in tight spots before and so far he has always fought free.

Mr Gonzalez has an astonishing feel for the country he rules. It allows him to make up policy on the hop, which is always valuable when memory fails.

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Patrick Blum looks at the Government's moves to rein back the economy

## Tough credit curbs may be working

**FEARING** the consequences of letting an overheated economy run out of control, the Spanish authorities are pulling hard on the brakes. If anyone had entertained illusions about an early relaxation of some of the Government's mainly monetarist measures introduced last year to curb credit and domestic demand, two figures published at the end of January put an end to any such hopes.

Bolstered by a booming economy, Spain's trade deficit for 1989 had surged by more than 36 per cent compared with the previous year to Pta 3.2 trillion (US\$1.5bn), and the current account deficit had almost quadrupled from \$2.56bn in 1988 to \$11.64bn. End-of-year inflation running at 6.9 per cent (compared with 5.8 per cent in 1988), well above the Government's over-optimistic 3 per cent target, provided another incentive for maintaining, if not deepening, tight monetary and fiscal restrictions.

Mr Jose Perez Fernandez, director-general at the Banco de Espana (central bank), has no doubts about what needs to

### Integration of the peseta into the EMS was also designed to reassure investors

with long-term foreign investment rising by over 76 per cent to US\$15.5bn.

The consequences of such a high level of activity were quickly felt: domestic demand and imports soared, and inflationary pressures grew. The current account deficit rose from 1.1 per cent of GDP in 1988 to 3 per cent of GDP last year, a level regarded by many economists as unacceptable.

A current account deficit of 2.5 per cent of GDP is the maximum level that is comfortable. Above that level, the net debt will grow, undermining the country's (international) standing," says Mr Jaime de Pinies, chief economist with Chase Manhattan Bank in Spain.

High investment levels and capital flows into Spain have generated more jobs and raised expectations, encouraging consumption and credit demand. Last year, the broad measure of money supply (ALP) rose by 10.5 per cent, and private credit to households and companies increased by 16.5 per cent, with a further decline in private savings.

By the middle of 1989, the Government decided to take additional action to reinforce measures aimed at cooling the economy that were introduced in January. The latter had had the twin objective of controlling monetary expansion through a tightening of credit and of reducing the inflow of short-term "speculative" foreign capital inflows.

Regulations were imposed to stop companies borrowing abroad to avoid high domestic interest rates, and the banks

KEY FACTS	
Area	504,750 sq km
Population	39.65m
Prime Minister	Felipe Gonzalez
GDP per capita	\$3,762 (1988), \$3,440 (1987)
GDP growth*	-5.2% (1988), 5.5% (1987), 2.1% (1978-88)
Forecast GDP % growth*	4.7 (1988), 4 (1989)
Consumer price rises (annual)	7.6% (to Sept 1989), 4.5% (to Dec 1988), 5.3% (to Dec 1987), 11.1% (1978-88)
Annual % wages rise	7.8 (1988), 8.7 (1987), 14.0 (1978-88)
Current account	-\$3.75bn (1988), -\$22.8bn (1987)
Trade balance	-\$15.5bn (1988), -\$12.86bn (1987)
Merchandise exports	\$38.65bn (1988), \$33.57bn (1987)
Merchandise imports	\$57.45bn (1988), \$46.55bn (1987)
Official reserves minus gold	\$37.1bn (1988), \$36.7bn ('87)
Main exports (1988)	non-food consumer goods \$12.5bn, raw materials, intermediate goods (excl. fuel) \$12.3bn, food and drink \$8.3bn, capital goods \$9.6bn, energy products \$1.9bn
Destination of exports (%)	European Community 65.6 (France 18, W Germany 12, UK 8.2, Italy 8.7), US 7.9, Opec 4.6, Latin America 2.6
Main imports (1988)	raw materials and intermediate goods (excl. fuel) \$18.4bn, capital goods \$15.3bn, non-food consumer goods \$13.8bn, food and drink \$6.9bn, energy products \$4.2bn
Origin of imports (%)	EC 51.8 (W Germany 18.2, France 13.5, Italy 8.8, UK 7.1), US 8.9, Opec 6.7, Latin America 5.8
Secondary education (% enrolled)	36 (1988), 38 (1985)
OECD average	53% (1988), 53% (1985)
Tertiary education (% enrolled)	32 (1988), 36 (1985)
OECD average	17% (1988), 7% (1985)
Currency	One peseta = 100 centimos
Exchange rate	US\$1 = Pta 118.3 (1988), Pta 71.70 (1980) 1980 prices £1 = Pta 183.8 (1988), Pta 166.8 (1980)
Source:	International Financial Statistics

were forced to raise their liquidity reserve ratios to reduce the amount of credit available on the market.

Companies wanting foreign currency loans were compelled to deposit 30 per cent of their loans with the Central Bank while continuing to pay interest on the total amount.

Macroeconomic aggregates (real % changes)		
	1987	1988
Private consumption	5.5	5.6
Public consumption	8.7	8.7
Gross capital formation	17.8	14.8
Fixed capital	14.6	14.2
Construction	10.0	14.0
Capital equipment	21.7	14.5
National demand	8.5	7.6
Exports of goods and services	6.9	7.2
Imports of goods and services	20.4	18.0
Gross domestic product	5.5	6.3
Final demand	8.0	7.6
Current account balance (% GDP)	0.0	-1.1
Public deficit (% GDP)	-1.8	-3.1
Inflation (year to December)	4.6	5.8
Employment	3.9	2.9
Average salary growth	6.4	6.5

\*1980-89 to 1987 Source: Source: Bank of Spain/International Monetary Fund

These encouraged companies to borrow more in pesetas, thereby pushing local interest rates up.

These measures had partial success in restraining some foreign capital flows, but failed in other respects. According to the Central Bank, the broad money supply (ALP) continued

to rise by 10.5 per cent in the first six months of the year, while private credit to households and companies rose by about 22 per cent in the same period.

In desperation, in July the Government imposed tougher credit controls while, at the same time, further raising bank liquidity ratios and taxes on high-yielding investment accounts. The announcement shortly before, that the peseta would be integrated into the European Monetary System, was also designed to reassure investors that Spain was committed to pursuing an anti-inflationary strategy.

There are indications that this combination of measures may be working with a notable slowdown in the rate of growth of the money supply and of credit. Money supply growth was brought down from 14.6 per cent in the first six months to 5 per cent between August and September. Private credit, which had grown at a rate of 21.7 per cent, declined to 8 per cent, bringing the annual rate to 16.5 per cent, half a percentage point below the Government's July target.

Short-term foreign capital inflows were held back as the possibility of an upward valuation of the peseta was constrained following its entry into the EMS. Nevertheless, consumption and productive activity have remained high, indicating that private consumption, which grew by more than 7 per cent last year, has yet to be reined in.

Business, on the other hand, has begun to complain about the impact of the Government's restrictive policies when interest rates remain high. "There are dangers, but you can't make a tortilla without breaking eggs," Mr Perez replies.

The Government is still debating its budget for 1990, after delays caused by last autumn's general election which returned the Socialists to power for a third term. Recent reports suggest that the Government will seek to limit the growth of its deficit by tightening up on expenditure.

Total spending is expected to rise by around 9 per cent to about Pta 11.6bn, but with a further cut in the budget

deficit from last year's 1.6 per cent of GDP to about 1.5 per cent. This is to be achieved through a reduction in state capital transfers and subsidies and cuts in some areas of social spending.

These objectives may prove more difficult to attain as the Government now faces demands for an average 8 per cent rise in wages from the unions. Wages rose by 8.7 per cent last year and labour costs have been pushing upwards, but the authorities hope that it will be possible to contain wage increases to around or below 7 per cent, slightly above an inflation forecast of 5.5 to 6 per cent. GDP growth is expected to remain high, though declining to around 3.5 to 4 per cent, with investment growth of 3 to 5 per cent in real terms and demand falling by about 2 percentage points to 5 per cent.

If the strategy succeeds, Spain may be on the road to "soft landing" but that is still a big "if". Mr Pedro Schwartz, from stockbroker Iberogaseo, believes that long-term prospects remain promising. "We are going through an investment boom" and

"There are dangers, but you can't make a tortilla without breaking eggs."

companies are doing well, although the climate has changed. I think inflation will fall quicker than expected." He says more deregulation could increase productivity in the financial sector and that strong foreign investment in the stock exchange will help modernise the economy.

Officials hope that a general tightening up of demand will keep the current account deficit in check, perhaps at around 3.5 per cent of GDP. Chase Manhattan's Mr de Pinies believes growth may exceed that figure, but he remains optimistic. "We are entering a phase of high-risk growth for the economy, and more has to be done to deal with overheating, but overall the economy is moving in the right direction," he says.

## FOREIGN POLICY

### Odd men out in Latin America

EARLY THIS year Mr Francisco Fernandez Ordóñez, the Spanish Foreign Minister, paid a quick visit to Tegucigalpa to attend the swearing-in of President-elect Leonidas Celi. Mr Fernandez Ordóñez met US Vice President Dan Quayle, the Honduran captain and also Venezuela's President Carlos Andres Perez, but he was not surprised to discover that not a single European Community ministerial colleague had bothered to make the trip.

A further eight Latin American presidents are scheduled to take office this year and Mr Fernandez Ordóñez will be present at each and every one of the oath-taking ceremonies. Some he will attend on his own; at others he will accompany Mr Felipe Gonzalez, the Prime Minister, and on one or two of the trips he will travel with a member of the Spanish royal family.

Madrid diplomats say that the most that can be hoped for in the present circumstances is that the EC should maintain "its present commitments to Latin America." These, at present amount to Ecu 306m a year.

Spain further expects that there will be no loss of momentum in a Madrid initiative which annually brings together the 12 EC partners and eight Latin American nations at the UN General Assembly to brainstorm about the debt problem.

But Spain is beginning to come round to the uncomfortable realisation that it must put its money where its mouth is and take upon itself a Latin American burden that the Community does not wish to share.

In the past three years Spain has drawn wide-ranging soft loan, trade and industrial co-operation agreements with Argentina and Mexico and it is now negotiating a third such accord with Chile. The Government plans to establish similar programmes with Venezuela, Brazil and Colombia over the next two years.

The idea is that by 1992, the year marking the fifth anniversary of Christopher Columbus' voyage to the New World and of the Expo '92 Universal Exhibition in Seville, Spain will be able to demonstrate to the EC its own individual bridge-building effort.

The immediate problem is that Spanish development aid is not very much to start with. Latin America receives 65 per cent of Spain's total aid funds and these have gone from representing 0.04% of GDP in 1986 to just over 0.1% last year.

The Government aims to raise the funds to 0.24% of GDP over the next three to four years, but even this radically improved figure contrasts with the average 0.35% of GDP that is currently spent on development aid by OECD nations.

Tom Burns

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Key figures on the right wing: Manuel Fraga (left) and Jose Maria Aznar

Peter Bruce on the country's political prospects

## Now the Socialists may not be safe anywhere

SPAIN'S general election last October was more than just a cliff-hanger. It was about whether Prime Minister Felipe Gonzalez's Socialist Workers' Party, so firmly ensconced in the centre of the Spanish political spectrum, could be successfully attacked from both the left and the right.

The arithmetic does not matter much. The Basque Nationalist Party, which runs the Basque Country in coalition with the Socialists, would probably hold out in the national parliament.

The important thing is the certainty now that the Socialists can be hurt. Mr Gonzalez has already conceded this by starting to conciliate his critics in the trade union movement this year in order to shore up his left flank. It was the IU's charges that the Socialists had

corruption scandal, but Spaniards are curious about him, especially now that the widespread conviction that the Socialists can manage a modern economy is beginning to wane a little.

Both the PP and the IU did particularly well in large Spanish cities, picking away at "yuppie" and intellectual votes respectively. The cities are where the main political battle will be fought from now until the next general election, with most opposition groups implicitly conceding that, for the moment, the highly organised Socialists are very hard to beat in the less developed countryside.

One dangerous exception to that rule, though, was the PP's convincing victory in the Galician regional election in December. Mr Manuel Fraga, the former Francoist minister and founder of the PP, had stepped aside in the general election for Mr Aznar, and took Galicia from a Social-nationalist coalition with an overall majority.

Recently, both the PNV and the governing Catalan group, Convergencia i Union (CIU), have begun hacking calls for self-determination, or the right to decide for themselves what their relationship with the rest of Spain should be. That would not exclude opting for total independence.

The manoeuvring is highly cynical, as both Basque and Catalan leaders know their economies would not survive outside Spain or the European Community. But regional

**Leadership struggles have already begun, say insiders**

drifted to the right, and widespread influence peddling among party members, that cost Mr Gonzalez most of the lost 800,000 votes.

Even more remarkable was the strong showing by the right-wing Partido Popular (PP), using a young candidate, Mr Jose Maria Aznar, as its main challenger to Mr Gonzalez. The PP, which until days before the poll had appeared to be hopelessly divided on policy, increased its vote and won another seat to confirm it as the second largest party in the



Felipe Gonzalez, the Prime Minister: showing up his left flank

## Unions and the Government are reconciled

### Our mutual friends

WHEN A Socialist Government narrowly renews its mandate in elections, it recognises soon enough who its real friends are and it sets about making amends to those it has slighted.

When a trade union movement's fraternal squabble with a Socialist Government comes within a whisker of ousting it from office, it rapidly sues for peace because it realises where its real interests lie.

Following the PSOE's hair's breadth win in the October 29 polls last year, a gust of realism is blasting through industrial relations in Spain. Compromise has replaced confrontation.

Neither the Government nor the unions care to be reminded at present of the bitter hostilities that led to a 24-hour general strike just over a year ago. Right now, they are talking and they are agreeing as if they had never done anything else.

The strike, on December 14 1988, was a success in as far as it brought the country to a standstill but it failed in the course of last year to force the Government into an economic policy U-turn. The polls successfully returned the Government to power last October but they did not, by any means, give it a mandate to humiliate the unions.

The two sides have been forced to recognise that they need each other and both have had to back down. The unions are negotiating with Economy supremo Mr Carlos Solchaga whose resignation they were demanding 12 months ago and Mr Solchaga is agreeing to do a lot to shake off their image as a centralist party with little sympathy for Spain's fringes.

Mr Gonzalez's promise to retire from national politics at the end of this (third) term – it is said he is interested in replacing Willy Brandt, the former West German Chancellor, as head of the Socialist International – has also begun to eat away at the Socialist Party's internal cohesion. Insiders say leadership struggles have already begun.

If course Mr Gonzalez could change his mind and try to stay on. The problem then would be whether he knows how to lose as well as he has become used to winning.

In the current round of nego-

tiations the unions have chalked up singular victories. The Government has agreed to a backdated 2 per cent rise in pensions and to a 2.5 per cent hike in public sector salaries to make up for loss of income last year when inflation overran the Government's targets. More importantly, the Government has agreed to the principle of a revision clause in public sector wage rises and to inflation-indexed pensions.

Such successes reflect both the manner in which CCOO and UGT have managed to consolidate the unity which they forged in the run-up to the general strike call and the Government's own political weakness.

As far as the UGT is concerned,

**This is the path to a closed shop, warn the employers darkly**

it has established its independence from the governing Socialist Party. The days when the UGT was merely the labour arm of the governing PSOE have ended. CCOO, for its part, reflecting the demise of communism, is shaking loose its party tutelage.

Neither union is willing, at least for the present, to work towards a more organic unity. Both fear that such a development, rather than creating a single trade union movement, would prompt splits in their organisations.

The concessions that the joint UGT-CCOO action has in any case won so far from the Government make such merger moves unnecessary in the short term.

The most controversial Government climb-down from the point of view of Spain's Employers' Confederation concerns its agreement to union monitoring of labour contracts.

The employers warn darkly that this development is the first step along the path to a closed shop and shop-floor power, invading the boardroom.

"We have no intention of influencing who is hired," says Mr Jose Maria Zufaur, an executive member of the UGT. "We simply insist that contracts should be honoured for what they are."

The contracts are perhaps the cornerstone of organised

labour's irritation with Mr Felipe Gonzalez ever since he took office in 1982. The Government boasts that 341,000 net jobs were created last year. But the unions gripe that 27.8 per cent of the public sector jobs and 33 per cent of the private sector ones are in reality short-term labour contracts.

Job creation in Spain, the unions claim, masks job rotation. There were some 4m job contracts last year.

For years the stock union complaint has been that the Government, for all its Socialist ancestry, has whittled down the secure and fixed structure of the Spanish job market by turning a blind eye to companies which hire first employees as trainees on a short-term contract and fail to provide the statutory job training.

The unions claim (and the Government now appears to agree) that the training programmes have become a device for hiring cheap, casual labour. Under the agreement the unions will have the power to report employees who do not implement *bona fide* training programmes.

The unions will also be able to report companies which replace employees hired on three-year job contracts, the maximum temporary contract permitted, with new employees hired under the same terms. A third extended practice is to renew temporary contracts as they expire although the employee is entitled, after three years in the same company, to job security.

The distinction between the temporary and the fixed contract employee is an important one, for the latter is protected against unfair dismissal and is entitled to generous compensation if the contract should be terminated.

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## SPAIN 4

**THE HIGH FLYERS** of the Spanish Civil Service do not have their sights on becoming permanent secretaries. Long before they have reached the upper ranks of the promotion ladder, they have moved across to the private sector.

"People join the administration," said a senior aide to a cabinet minister, "because they want to discover all the loopholes before they set up their own businesses." It was a particularly jaundiced judgement on one aspect of the Civil Service, but it was not too far off the mark.

Another scenario concerns the low-ranking *funcionarios*, some of whom the public actually meets because they include the permit-dispensing civil servants who are constantly besieged by queues as they sit by their windows in government offices.

Mariano Jos de Larra, a 19th century journalist, wrote a celebrated article titled *Vuelta usted mañana* (Come back tomorrow) that charted the eternal procrastination of the paper-pushing *funcionario*.

Obtaining the relevant bureaucratic seal of approval today, whether it be to register a birth or a business, has not changed that much since Larra's times.

**Tom Burns casts an eye over the country's bureaucrats**

## System needs overhaul

*Inspector de Hacienda*, his predecessor, Mr Antonio Hernández Mancha, is a state lawyer (he was, as it happened, coached by Mr Conde when he prepared his examinations to enter the corps), and the grand

**Instead of a six-month wait for a pension, the paperwork is done in a week**

old man of the Spanish right, Mr Manuel Fraga Iribarne, currently head of the Galician regional government, is both a diplomat and a member of the *Cuerpo de Letrados de Estado*, an executive corps that drafts legislation.

The amount of civil servant talent that lies outside the bureaucracy highlights an obvious problem facing the administration. Political ambitions aside, the drain from the public to the private sector is

caused by the low pay structure and recently the Government has begun to address the issue.

Of all the Civil Service departments, the Economy and Finance Ministry is the worst hit by defections and it has evolved productivity-linked schemes which in the case of tax inspectors can earn them above Pta 11m a year. Salaries are higher in the private sector but the scheme can allow key officials to more than double the basic salary of a director general, at the top end of the Civil Service and in fact, to earn more than the Prime Minister, whose annual emoluments is just over Pta 5m.

At the bottom, "Come back tomorrow," end of the bureaucratic market the problem is of a different order. Mr Joaquín Almunia, Minister for Public Administration, told a parliamentary committee last month

overhaul the Civil Service.

The fact that Mr Almunia was addressing MPs at all on the issue of Public Administration Minister is a comment on the Government's decision to come to grips with the Civil Service. The Public Administration portfolio was created in 1986, following Mr Felipe González's second electoral victory, and Mr Almunia, a former Labour Minister, was appointed. Bureaucracy seems to go with the specific brief of introducing wide-ranging reform to the 220,000 odd employees of government departments.

Mr Almunia believes that a thorough overhaul requires a 10-year time scale, but already he claims some progress. There used to be a six-month gap between a widow registering the death of husband and obtaining a pension. Now the relevant paperwork is completed inside a week. "We've managed to change the whole philosophy," said one of the

minister's advisers. "We now pay our first and then investigate whether the facts are true."

It irks the minister that security for all government offices should be provided by members of para-military Guardia Civil who are trained and equipped, at the cost of Pta 4m a guardman a year, for national policing. He hopes that they will soon be replaced in the lobbies of ministerial buildings by employees of private security firms.

The Public Administration department has in the meantime managed to establish a horizontal control over the dif-

ferent ministries and is gaining, for the first time, a clear and comprehensive picture of the bureaucracy. An initial policy document prepared by the department chillingly reported that the administration "lacked the necessary means" to identify exactly what Civil Service personnel was required and how to recruit it.

Mr Almunia is adamant that the Civil Service does not need any more paper-pushers (in fact it could do with many less) and that it requires a lot more *funcionarios* providing specific services to the public. In order of priority, the Public Administration Ministry is currently overseeing recruitment to the prison service, to the health department, to the public schooling system and to the Finance Ministry.

A final problem concerns the bureaucratic duplication that has taken place in Spain since the death of General Franco as a consequence of administrative decentralisation.

In theory, under the quasi-federal framework of democratic Spain, the centralised Civil Service should have been reduced as power was transferred to the regions. In practice, Parkinson's Law has proved its relevance for Government departments in Madrid, often claiming that they needed to improve co-operation between the regions, have tended to expand rather than contract.

Mr Almunia's department is less sure about how to proceed in this respect. Old centralist habits die hard and at times when instances of corruption in the provinces are regularly reported and when the self-determination debate has raised its head in both the Basque Country and in Catalonia, there are good arguments for keeping such habits alive.

### PUBLIC ADMINISTRATION: THE JUDICIARY

## Tortoise quickens its pace

MOST SOCIETIES view their judicial system as cumbersome. Spaniards believe theirs to be worse than anywhere else. At the Ombudsman's office, complaints about the slow-moving judiciary rank second only to those about queues in the health service.

Justice Ministry officials, however, stress that at least as much has been done to overhaul the judicial system as in any branch of the Civil Service. They claim that the administration of the law in Spain is now similar to what it is in France and in Italy.

The overhaul started virtually from scratch. Until recently, the geographical distribution of courtrooms in Spain and the number of judges presiding over them had remained almost unchanged since the turn of the century when Spain's population was less than half what it is now. The whole system was creating a standstill, not least because during the 40-year

long rule of General Franco, says Mr Liborio Hierro Sánchez, the Justice Ministry's Under-Secretary, "Justice was abandoned."

The key issue had become one of speed in the administration of justice, for the actual delivery of law remains uncontroversial. "The complaints have more than anything else to do with the time factor," says Mr Hierro Sánchez. "In contrast, there is a general satisfaction over the actual process of the law once a case comes to court."

Mr Hierro Sánchez argues that thanks to the energy displayed by his department in recent years the time taken to administer justice in Spain has been more than halved. Criminal cases which took an average of four years to reach court midway through the last decade now take two years and a Supreme Court ruling which might have meant a wait of up to five years in 1982 is now obtained in two years.

However, he concedes that although real time in obtaining a sentence may have been drastically reduced, the general perception of a tortoise-like legal system remains unchanged. This is because public expectations have risen and what may appear fast justice compared with a decade ago remains slow by the standards of today.

What the Justice Ministry has done to bring about the change is quite simply to increase facilities. In the past seven years, some 4,000 new courtrooms have been opened and the number of judges in Spain — following the Napoleonic model judges form a corps as do prosecutors and state lawyers — has, in theory, risen from 1,800 to 3,600.

In practice, the current number of judges is closer to 2,200 for some 300 judgements are vacant. This anomaly appears as a constant in many of the senior corps of the Spanish bureaucracy but it is arguably more grievous in the judicial sector because of the pressing need to improve this public service.

The 300 current vacancies are an improvement on the 500 that existed when the corps of judges stood at 1,800. There are

less vacancies now in real and proportional terms because of legislation in 1985 that enabled the Government to break down the inbuilt corporatism of the differing corps of bureaucrats by having a decisive say over who, and how many, they choose to elect into their fold.

Becoming a judge, like entrance to any of the corps in the bureaucracy, is by a system of competitive exams and it is alleged that the judges forming the examining board deliberately limited the number of new entrants to their fold.

This practice used to be common in the Civil Service. At its best, it served to preserve the prestige of each corps, and, at its worst, it ensured that by virtue of the unfilled quota, bureaucrats could enter the private sector and then return to the Civil Service, should they choose to, because there would always be a job waiting for them.

The guidelines introduced in 1985 struck at the root of this self-perpetuating, closed shop mechanism by altering the composition of the examining tribunals. The majority, on these tribunals is now made up of direct representatives of the ministry that oversees the corps in question. These nominees on the board have the specific brief of swelling the ranks of the corps as required.

In the run-up to the new legislation, only some 20 new judges were admitted every year. The annual intake over the past three years has been closer to 250.

Compensation has meanwhile come to the judges by way of wage increases of some 30 per cent; their salary structure, while lower than in Britain and in West Germany, is now on a par with that of their peers in France and Italy. Future progress on cutting down the time lag in which justice is administered in Spain will be the result in part of maintaining this momentum. By 1992 the Justice Ministry hopes to have a corps of 4,000 judges presiding over a network of 3,000 courtrooms.

A further accelerating factor will come with a change currently under way in the judicial process that will allow minor offences to be dealt with in a matter of days by what will be a rough equivalent of Britain's magistrates' bench.

Tom Burns

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## INDUSTRY AND THE PUBLIC SECTOR

**'Greater framework' for INI**

**BUREAUCRATIC JUNGLES.** In heaven, did not come better than the Instituto Nacional de Industria (INI), Spain's sprawling public sector conglomerate.

With a finger in just about everything every pie, from interior design to specialised steel, INI offered a job for every boy that ever was and it enjoyed an outside cushion by way of the state budget to protect it against a real world of profits and losses.

That used to be the picture. It is a different one now. Bureaucrats and fellow-travellers are beating a retreat out of INI. The conglomerate is not sprawling, but it is not exactly expanding, either. And there are profits.

A year ago, unnoticed by many, INI changed its statutes to gain greater autonomy than ever in the day-to-day running of its affairs from its big brother, the Ministry of Industry. It was the start of a profound revolution.

**It is not a catch-all umbrella for "strategic" companies**

The immediate outcome was that the civil servant, *funcionario*, staff at INI's Madrid headquarters, from the door porters and the tea ladies upwards, had the option of early retirement, of accepting a new status as a contracted employee or of continuing on the bureaucratic pay roll in the Industry Ministry itself.

Few *funcionarios* elected to stay on at INI under the new terms. The upshot was that the nerve centre of the public sector in Spain has no public servants as such on its books. Virtually all the INI headquarters staff are on everyday professional business contracts and their numbers have been whittled down by a third, from 600 to 400.

Mr Jordi Mercader, INI's chairman, is a man who measures his words carefully. It is arguably because of his



Jordi Mercader, INI's chairman (left) and his predecessors, Luis Carlos Crostiester (centre) and Claudio Aranzadi

and he knows how to be deliberately vague when this is diplomatically necessary. He says that being able to hire the staff he wants as if he were running a private company has made a difference. "There is a different tone now," he says, of a different tone now.

Mr Mercader does not like the term sprawling any more than he likes the concept of expansion. Sprawling is incorrect when applied to the present-day INI and expansion is not the chairman's aim: "the issue is one of growth and that is not the same as expansion."

Mr Mercader talks of growth and of the challenge of "growing properly" in the context of INI being a "great industrial project."

"Great," he says, has nothing to do with being "big" although INI is certainly this, for it is by far the largest industrial group in Spain. Great means growing and developing as a well-managed and competitive corporation.

The language is that of the private sector, which is where Mr Mercader learnt about business. INI is certainly not a catch-all umbrella for companies that the state deems to be strategic and much less is it one for white elephants that have to be bottle-fed for political reasons.

It is arguably because of his

corporate experience outside the public sector that Mr Mercader put profits in a different context to that of his predecessors at the head of INI. Profits in themselves are not enough.

In 1988 INI went into the black at last with pre-tax profits of Pta 30.5bn due to the rationalising and streamlining efforts of Mr Claudio Aranzadi, the current Industry Minister, and of Mr Luis Carlos Crostiester, who is now running the Stock Exchange Securities Commission after a previous stint in the Industry portfolio. The forecast is that in 1989 INI's profits will have doubled.

While such results might be the end-target of most public corporation chairmen, Mr Mercader sees them merely as one particular, though necessary, acid test. "Now is when we have to start thinking, without complexities, about a greater framework," he says.

A clear hint of what Mr Mercader is thinking about came with the sale last December of Enasa, INI's wholly-owned truck manufacturer, to West Germany's MAN and Mercedes-Benz.

Volvó wanted Enasa and so did Daf and Fiat, but Mr Mercader persuaded the Government to sell 60 per cent of the company to MAN and a

further 20 per cent to Mercedes-Benz because, as part of the deal, INI would acquire an 8 per cent stake in MAN and a seat on its board. Never before had the Spanish public sector holding held stock in a foreign company.

The real prize of the Enasa sale was the agreement over INI's future co-operation with the West German group. Now that he has established a beachhead in Europe and an alliance with an industrial giant, Mr Mercader feels more confident than ever about INI's possibilities.

The "greater framework" could well involve similar sale and equity swap deals between INI companies and other multinationals. Mr Mercader talks of "going international with a competitive strategy" and of "sharing projects with the private sector on an equal basis."

It is not a framework that has anything to do with bureaucracy.

Tom Burns

WHEN AN unruly colonel was sent to jail last year, under direct orders from the Defence Minister, for advocating an end to conscription and its replacement with a professional army, many people thought the punishment excessive. After all, public opposition to conscription in Spain is widespread and hardly new.

True, Colonel Amadeo Martínez Ingles, who is still in jail and unrepentant, also suggested the army was so poorly trained that it could hardly be considered operational. Nevertheless, the Government's reaction demonstrated the unease that exists in Spain about military affairs. That unease is rooted in the military's past history, and it spills over into any discussion about the role of the armed forces.

After decades of dictatorship and isolation, the transition period that followed Franco's death in 1975 proved especially difficult for the military. The Spanish armed forces found themselves ill-equipped for the new open and democratic environment. The military's frustration at its loss of status in Spanish society exploded into a tragicomic coup attempt in 1981. The coup failed and the military's isolation became more acute, forcing the military hierarchy and the politicians to take another hard look at the problem.

The turning point came when the centrist government of Leopoldo Calvo-Sotelo took Spain into Nato in 1982, despite widespread popular opposition. Nato was perceived as dominated by the US, and there was still resentment over the military pact the US had made with General Franco in 1953. The pact allowed the US to establish bases in Spain, and subsequent secret agreements gave the US extensive rights in the country in the case of war or of an emergency. In return, the US provided Spain with economic and military assistance. In the view of many Spaniards, the pact and the close relationship between Washington and Madrid that followed conferred an unacceptable degree of legitimacy on the Franco regime.

When the Socialists who had opposed Nato membership came to power later in 1982, they immediately froze Spain's entry. Mr Felipe González, the Socialist Prime Minister, subsequently changed his mind, but kept to an electoral pledge to put the issue to a referendum which took place in 1986. The Socialist Government campaigned vigorously in favour of remaining within the alliance though outside its military command and with a smaller US military presence, and won the vote.

Spain's entry gave a new purpose to the armed forces, especially to the navy and air force which have been able to work closely with other Nato forces. But Spain's

## THE MILITARY

**Forces from the past**

role within the alliance remains ill-defined – a consequence of staying out of the military command though, unlike France, it sits on Nato's Defence Planning Committee and its Nuclear Planning Group.

Spanish officials first suggested a role for Spain along an axis going from the Balearics to the Canaries across the Strait of Gibraltar. This has remained on the drawing board, not least because control of the sea lanes across the Strait is already the responsibility of two Nato commands: Iberian, under Portuguese control, for operations in the Eastern Atlantic, and Gibraltar's Gilbril which Spain refuses to recognise because of its dispute with Britain over the territory.

Negotiations over six co-ordinating agreements outlining Spain's responsibilities cover:

**Nato has opened up new perspectives for the army**

defence of Spanish territory;  
 air defence and air space control;  
 the establishment of a new Nato naval force under Spanish command for the Strait of Gibraltar;

sea and air operations in the Eastern Atlantic;

the use of Spanish territory as a transit support and logistic area.

Western diplomats in Madrid say agreement on some of these proposals may be reached by 1991. But the delays have caused irritation among the Spanish military who blame the Government's vacillations for full integration. "Going into Nato was a political decision, but military integration is not a political question but a technical one," says Mr Javier Ruperez, defence spokesman for the opposition Partido Popular. "If Spain had been fully integrated in the military command, the approach to a solution over Gibraltar would have been easier," he adds.

The use of Spain for a support role in the distant Central European theatre may

be less crucial with the end of the cold war. With an eye cast on Eastern Europe, Spanish analysts are wondering whether the changing international political situation will not, at last, give Spain the opportunity to play a more important role. The idea is that the perceived threat may no longer be on an East-West axis, but on a North-South one, with defence of Europe's underbelly a more important priority. "Nationalism and fundamentalism pose a growing threat. This is the case in the South, and it would tend to reinforce Spain's role in Nato," Mr Ruperez says, although there is a degree of self-interest in Spanish concerns in view of Spain's presence in the two North African enclaves of Ceuta and Melilla.

If Nato has opened up new perspectives for the Spanish military, the sense of unease about its future has not altogether disappeared, especially within the army which has remained more resistant to change. The armed forces remain top-heavy with too many generals and too few properly trained servicemen. The Government has begun an ambitious restructuring programme aimed at modernising and streamlining the forces. Mr Narciso Serra, the tough Catalan Defence Minister, has been pushing through reductions and has introduced promotion on merit, despite an outcry among sections of the military. Western analysts believe both moves were long overdue and will strengthen Spain's forces.

The Government has also decided to cut conscription from 12 to nine months over the next five years, unintentionally fueling the debate about a professional army. Officers argue that it will be even more difficult to give recruits adequate training in so short a time. The Government opposes a professional army on the grounds of costs, but the issue also raises fears about the potential political power of a more cohesive and better-run army.

The forces' state of readiness has improved in recent years, with the navy regarded as the most modern and the army giving cause for most concern. Cooperation with other Nato forces has tended to reinforce a desire for greater professionalism, though this did not prevent a work-to-rule by air force pilots last autumn. One of the forces' problems is that highly-skilled technicians can usually get better-paid civilian jobs. But for all the shortcomings, there have been considerable improvements. "The military are moving away from being concerned with stopping revolutions, and that is a positive development," says one analyst.

Patrick Blum

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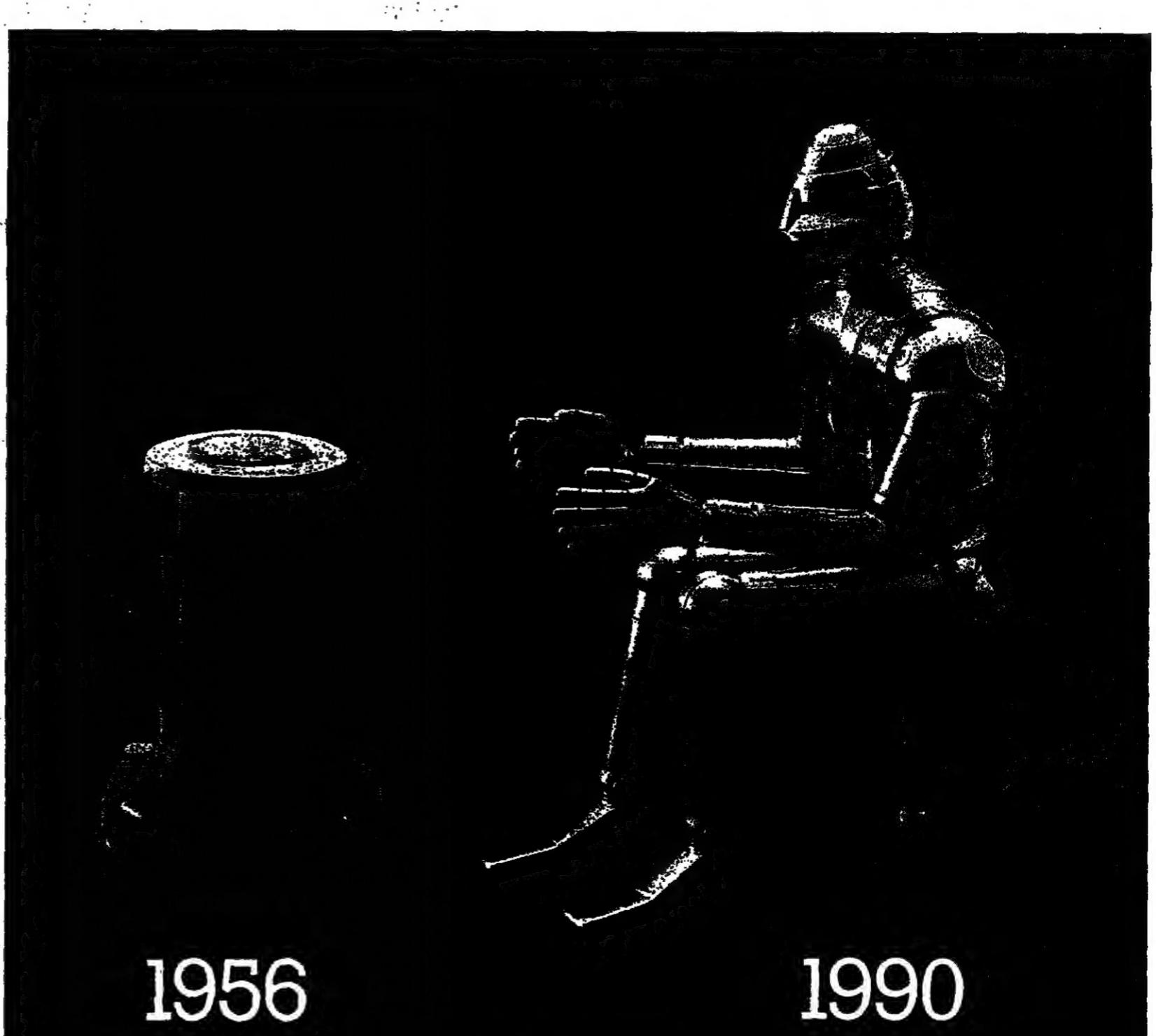
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## SPAIN 6

Marketing, not industry, lets the country down, says Peter Bruce

## Bimbo needs a new image

**WELCOME TO** the home of Bimbo bread and Bonka coffee. The Spanish also market a gin with a name that is so peculiar that it is unprintable in this newspaper.

The bread and the coffee are fine, but if brand names contribute to the image foreigners have of Spain and its products, Bimbo and Bonka, in the UK at least, would be bad news.

But Spain began its industrial conversion 10 years ago with little marketing tradition. Supermarket managers still remember shoppers queuing for items. Industry was protected and what the Spanish did sell abroad was often done through foreign manufacturers buying local products and branding them as their own.

Since 1986, when Spain joined the European Community, Spanish industrial companies have made good profits (excepting, of course, in bright sectors such as steel and heavy engineering). As a four-year-long consumer boom now begins to peak, much of industry has been able to clear its debt and modernise its production lines. Marketing is the new challenge.

The reason is obvious. Last year the deficit in the current account of Spain's balance of payments more than quadrupled to a record \$11.6bn.

Tourist income, which was once the saviour of the country's balance sheet, can no longer cover Spain's rapidly growing import bill nor the average Spaniard's apparently insatiable desire to spend his or her income. Spaniards are still not long-term savers.

Inflows of foreign investment capital, which had pushed the country's reserves up to \$46bn by last autumn, have slowed as foreign investors have become more selective about what they buy. Spain has little choice now but to begin exporting its way out of trouble.

It will be a tough assignment. The peseta is being kept artificially strong by high interest rates designed to dampen consumer spending. Imports grew by 20 per cent last year while exports, in value terms, managed a rise of only 12 per cent.

One of the main dangers for Spain lies in the fact that, according to the Government, some 45 per cent of the current account deficit last year was accounted for by inflows of capital goods destined to feed a huge public works programme and continuing modernisation of production processes in factories. Spain cannot now stop these imports without endangering its capacity to fend for itself.

This level of demand for capital goods, say some economists, could continue for the next five to seven years and Spanish manufacturers are having a hard time keeping up with their own market.

"They are importing everything," says Mr Enrique Kalbel, president of Sercobe, the national capital equipment producers group. "Sometimes they import for price and sometimes just for the name." Imports now have about 60 per cent of the capital goods market and that share is growing.

What, then, can Spain sell abroad? Its myriad and often high quality consumer products are practically unknown beyond

its borders. The capital goods it manages to export are not that sophisticated and may soon run into competition from Eastern European machine tools or construction equipment.

But most Spanish observers, like Mr Kalbel, seem to think the problem has been reduced to image only. Mr Ernesto Tejedor, vice-president of the state's export promotions operation, Icex, agrees.

"We have difficulty with Spain's image as an industrial country," he says. "People (foreigners) still think we export only agricultural produce." In fact, Mr Tejedor claims, about half of Spain's exports are "industrial," or would have been processed in some way, with food products accounting for just a quarter.

Icex is making a major effort to promote Spanish brands abroad and its budget for exhibitions and training Spanish businesses in how to sell has more than tripled to Pta 200m in four years.

But the products are hard to spot. The million or so cars exported from Spain every year are all made by foreign multinationals and do little to promote the country's reputation for quality. Food poisoning scandals in the past have damaged prospects for some products and Spanish wines, particularly Riojas, remain imbedded in the minds of foreign consumers as cheap and nasty.

The truth is that most Riojas are nothing of the sort. Some stand up to the best of their French competitors, but the French have done a superb marketing job with wine abroad while the Spanish have done practically nothing. With foods and drink, says Mr Tejedor, almost all the added value is merely a question of image.

Things may now be changing. "Our business culture has altered completely," says Mr Tejedor. Some 40 per cent of the capital equipment now being used in Spanish industry is less than four years old, and the Government believes that by 1994 60 per cent of production facilities will be less than six years old.

Where they can afford to, Spanish exporters are beginning to establish their own distribution networks in client countries to escape often weak services offered by local agencies. Companies such as Freixenet, which produces cava, Spanish "Champagne", have been very successful abroad. Freixenet, claims Icex, has helped push cava sales in the US well beyond French Champagne.

While Spaniards are convinced that their export image problem abroad is simply a matter of education and not related to real quality problems, consumer resistance to the "Made in Spain" label is obviously still high. A great deal of Spanish olive oil is sold in bulk to Italy where it is bottled and exported as Italian produce.

Spain produces about 20 per cent of the world's black truffles but has not marketed them as French to get them into good foreign restaurants. Computer numerically controlled machine tools made in the Basque Country are still being sold to West German producers, who label and sell them as German. Fagor, the Basque

white goods giant, was until recently making dishwashers for Hoover in the UK. Selling goods to other competitors may well imply a lack of confidence on the part of the real manufacturer. Spanish businessmen admit they still do not travel enough, still have language problems when they do and still have great difficulty in absorbing the sheer complexity of some European Community markets, where 70 per cent of Spain's exports go.

The coming generational change should solve that. Young Spaniards are thirsty for language tuition and many spend a year or more studying abroad – something their immediate seniors often never had a chance to do. "It is almost impossible to find a job today without knowing English," says Mr Tejedor. Use of French, the second language of the Franco era, is declining.

There is a long way to go, though, before industrial exports (industrial or agricultural) become the sort of thing Spaniards could turn to if they were ever in need. The Government does not help much. The Prime Minister, unlike his British or West German counterparts, travels in small groups without long ranks of businessmen in tow.

The Government is still dedicating more time to traditional products like foodstuffs than to industry," says Mr Kalbel of Sercobe.

And smart young Spaniards head first for the financial sector before trying to look for work in industry. The banks, any way, own much of Spanish industry and industrialists are not prominent. The media does little to portray industry as anything more than the thing that banks sell bits of when it suits them.

Spain's accession to the European Community in 1986 was electric shock therapy for its depressed, overweight, fertiliser industry.

Like its European counterparts, the energy-hungry industry had a long history of small-scale localised manufacture; but while other European producers began to put their houses in order after the oil crises, and by the mid-1980s were on the way to economies

of scale, cutting the number of companies from 40 to eight – the Spanish carried on, regardless.

Spanish fertilisers until 1986 enjoyed heavy protection; imports hampered by tariff barriers and bureaucratic snarls were less than 1 per cent of the market. Thirty-two factories churned out nutrients for a slow agricultural market, oblivious to the laws of supply, demand or geography.

Southern plants moved goods that travel badly at high cost, to northern outlets. Northern factories sold to the south. The industry lost money.

Meanwhile, Eesa is undergoing a "scrap and revamp" redesign under a five-year Pta 40bn investment plan that, says Mr Vega de Seoane, "sheds what was obsolete and makes good units better, concentrating plants and improving the use of capacity."

Eight plants have gone. Fine tuning has begun. A key late-1989 move by Ercros was to acquire control (80 per cent with the option of 100 per cent) of Enfresa, INI's nitrogenous-nutrient company that runs modern, efficient plants like Sagunto on the Mediterranean coast. INI did not feel Enfresa stood much chance of coping on its own in the EC and let it go to Ercros.

Ercros has now worked its way up to sixth place among European fertiliser manufacturers but Mr Vega de Seoane has no plans to buy out the three or four small, remaining Spanish manufacturers. His

object, he says, is not to corner markets but to organise key products more logically, refurbish production-oriented management, finances and prices, to take advantage of abundant, competitively-priced raw materials – above all sulphur and sulphuric acid (Europe's cheapest), phosphorous rock imported at low cost from Morocco, and potassium-based products, to increase productivity and start turning

**Raw material prices are competitive – sulphuric acid is Europe's cheapest**

a profit. It has been a rough ride for Eesa to 1990 amid fierce competition from price-cutting European manufacturers keen to get into the Spanish market, inherited ERT debts and 1988 losses of Pta 8bn – but it broke even in 1989 and in 1990 hopes for a Pta 35bn profit.

Once, there were 32 Spanish fertiliser plants. Then, there were 20. Soon, there will be 11. But this new scene, says Mr Vega de Seoane, offers better service to the customer, with more logical logistics – the north produces for the north and the south for the south, cutting transport costs to a minimum. Protectionism has ended; professionalism has begun.

Diana Smith

## FERTILISERS

## EC therapy seems to work



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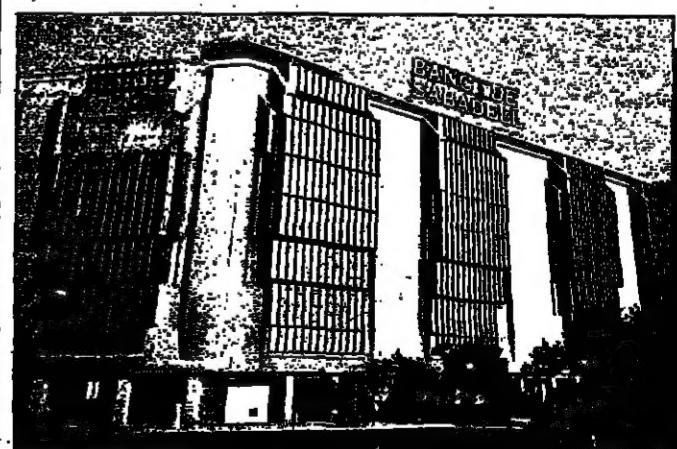
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**Patrick Blum analyses Telefonica's modernisation spree**

## Call for 500,000 lines

IT IS raining, traffic comes to a halt, taxi drivers lose their temper, and walking through some of Madrid's streets becomes an obstacle course on and off the pavement, and around barriers, all the time keeping a sharp look out to make sure of not slipping into a ditch. Who or what is responsible for all this misery?

The answer, leaving the rain aside, is Telefonica, Spain's telephone monopoly, and the company Spaniards most love to hate. The company has embarked on a vast modernisation and expansion programme for which almost every road and the smallest street seems to have been dug up to instal new glass fibre cables.

Work appears to be proceeding apace. It needs to. With about 500,000 people waiting for telephone lines, down from an all-time high of over 800,000 last June, the company is stretched to the limit to overcome the backlog of unsatisfied demand as well as new orders. New subscribers must wait several months, and in some cases up to a year for a line, depending on which part of Madrid they are in. Telefonica's Mr Luis Gomez says that demand for telephones and connections to facsimiles and telex machines rose more than 15 per cent last year and is continuing to grow. In the circumstances, the company does

**It will have to cope with the Olympics and the Seville exhibition**

penalties will be imposed on suppliers for failing to comply with the targets.

But the pressure on Telefonica is unlikely to ease soon. In 1992 it will have to cope both with the Barcelona Olympics and the Universal Exhibition at Seville.

To meet that challenge, Telefonica has already decided to channel some Pta 50bn (500m) this year alone towards improving and expanding Barcelona's telephone network. This is part of a general programme of investment, which envisages spending about Pta 800m (53.5m) this year and a further 1.5 per cent last year and is continuing to grow. In the circumstances, the company does

not expect to catch up with demand for two to three years.

To speed up installation of new lines, Telefonica has taken on AT&T Network Systems as a third switching equipment supplier, in addition to Alcatel-Schmidt Electrics and Intelsat.

After a series of bad delays, Telefonica has set monthly targets, a move which it hopes will prevent bulging up of work towards the end of the year. Strict financial

limits will be imposed on suppliers for failing to comply with the targets.

At the moment there are more than 1,000 different tariffs," Mr Gomez says. The company hopes that by the end of 1991, prices will be more in line with those in Europe. International calls are substantially more expensive than in other European countries while local calls are much cheaper. The company wants to redress that balance, though it may face some tough opposition to any increase in domestic charges.

The company is also seeking a role as an international

operator, rather than supplier. Last July, it acquired 10 per cent of Entel, Chile's largest telecommunications transmission group. Telefonica had been trying for more than two years to enter the Latin American telecommunications market. It had previously unsuccessfully bid for a stake in the Compañía Telefónica de Chile, which was privatised in late 1987.

Other international efforts have been directed at Argentina and Mexico. Over a year ago, Telefonica offered to buy 40 per cent of the Argentine state-owned telephone monopoly which the then Radical Government was planning to privatise. After the Peronists' election victory last year, the deal ran into trouble and prospects remain uncertain.

The new Argentine Government is expected to study all the bids in March and take a final decision in April or May.

Telefonica has made a similar approach to Mexico's Tel-Mex and hopes for a response later this year. Whatever the outcome of these proposals, they will not be Telefonica's last forays abroad. Under its new chairman and management, the company's dual strategy of modernisation and development at home and international expansion is expected to be pursued even more aggressively.

WHEN MR Felipe Gonzalez swept to power in the 1982 general elections, his party manifesto promised to raise the school leaving age from 14 to 16. Next month, Mr Javier Solana, a Socialist Party member who was Minister of Culture in Mr Gonzalez's first Government and is now Minister of Education, will begin to meet that promise by formally moving an educational reform bill in Parliament.

The reform is more than overdue. Earlier legislation raising the minimum employment age to 16 has created a two-year gap for those who entered compulsory schooling at 14 as at present and are unable to enter the job market although they have neither the means nor the inclination to continue their education.

But the bottom line of the bill, Mr Solana told a parliamentary committee, is to create an educational system that will allow Spain to win "the challenge of European integration."

The reform, as such claims imply, goes much further than keeping teenagers on in the classroom for another two years. With a budget of Pta 560bn over the next seven years, Mr Solana intends to:

• create a new division between primary and secondary schooling;

• overhaul the sixth-form tier to allow for technical and

vocational options in addition to the university entrance exam.

One potential trouble-spot concerns the teachers and another the students.

The teachers maintained a strike which stalled two years ago and are awaiting a new wage deal which, under the terms of the settlement, is due to be announced at the end of the year.

On paper, at least, the Reform of the Educational System Law must count among the key legislative packages sponsored by the PSOE and it is by far the most important one in the social field.

It will replace an educational law that was framed in 1970 - at a time when General Franco, who had still five years to live, maintained Spain in isolation from Europe and when the Catholic Church had a major say in the nation's education.

Mr Alvaro Marchesi, Director-General of Educational Reform and one of the fathers of the proposed legislation, warns that although the overall design of the bill is a good one, "the real test is to implement it."

The law is extremely ambitious in its scope although, indeed, it could hardly be otherwise given the major changes that Spanish society has undergone over the past 20 years. But Mr Marchesi fears that a reform with such an ambitious scope will stir up all the underlying conflicts in

Spanish education all over again."

One potential trouble-spot concerns the teachers and another the students.

The teachers maintained a

six-month strike three years ago during an extended period of demonstrations over the issue of restricted entrance to university degree courses. To a large extent, the protests cost Mr Solana's predecessor his job.

The new legislation will make access to the university easier and more selective and it is very much an open question whether Spanish students will take to the higher education alternatives such as technical colleges and further education colleges that are specified in the bill.

A major problem is that the Spanish family continues to view a university place as the sole objective of education," says Mr Marchesi. "It is assumed that everybody has a right to a university education because a university degree means social and economic promotion."

Such perceptions are understandable because under the existing education system, in which compulsory schooling ends at 14, secondary education is perceived as a preparation for university entrance. The assumptions are, however, wide of the mark: in the event, between 30 and 40 per cent of students who embark on secondary education drop out before they sit the university entrance exams.

Tom Burns

Diana Smith examines the country's job training programme

## Trying hard, must do better

iques that industry or construction no longer need, or courses in chemical industry or work in regions with no chemical plants. Spain does not have a very mobile population.

The problem, in a land of 2.7m unemployed people, requires a consensus of management and labour, not just official study and debate.

The General Job Training Council, a tripartite body of government, business and union representatives ostensibly set up for this purpose, has,

The authorities have recog-

nised that the programmes need urgent fine-tuning. "We

went first for quantity, now

creation three years ago and failed to gear basic and occupational training, and upgrading of experienced workers, to the swiftly-changing technological requirements of the Spanish market.

And union-management dialogue tends to boil down to money rather than how to achieve high-quality training and retraining throughout a person's active life, say critics of the job training programme.

The authorities have recog-

nised that the programmes need urgent fine-tuning. "We

went first for quantity, now

we aim for quality," say Labour Ministry officials, who point with some pride to occupational training of 2m people since the programme began in 1986. In its first year it reached 60,000 people but by 1989 the figure had leapt to 500,000.

While a meagre Pta 500m (24m) was spent on training in 1983, spending last year with backing from the EC Social Fund exceeded Pta 120m.

Up to 1992, the Social Fund

plans to allocate US\$3.5m to

Spain for job training - and

64 per cent of these funds will go to the less-favoured regions.

The Labour Ministry and its National Employment Institute (Inem), which oversees occupational training, intend to inspect every training centre in Spain this year and to try harder to ensure that training meets the needs of the market.

In 1987 Inem commissioned a permanently-updated study of job and training needs. This year it will begin follow-up work to check if the right skills are being taught and are

applicable to sectors where workers are needed.

The initial stampede for quantity seemed the only way to get training moving and stem the rising tide of chronic young unemployment before negotiating its EC treaty, Spain had had neither enough money, teachers or instructors to tackle the massive training and recycling it needed.

The current official fol-

low-up involves a sweeping analysis of who has been trained, where and by whom, whether courses meet specific needs or not, and if appropriate skills are developed.

Reflecting union preoccupa-

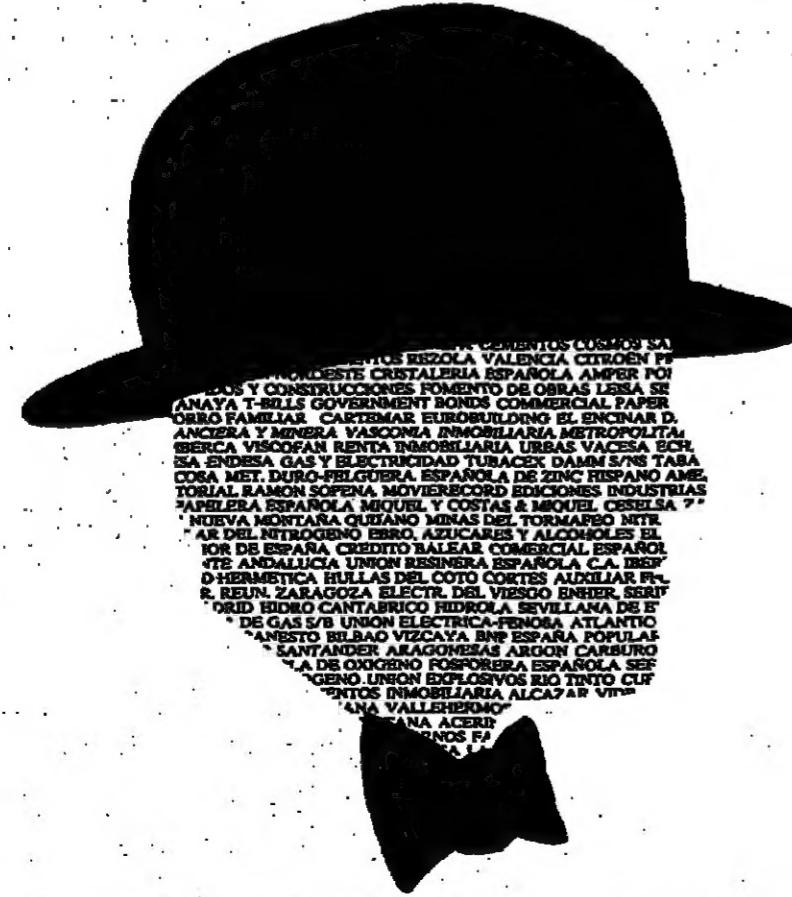
tions, Labour Ministry spokesmen admit that it is useless, as has been the case, to have a plethora of building worker courses in Extremadura, where there is a glut of unem- ployed builders - while

Andalucia, which is desperate for building workers, has no suitable courses to train new labour in this craft.

Do courses lead to jobs? And do the jobs done on the skills learned in courses? In part, yes, says the Ministry: in 1989 more than half of the people who went through courses got jobs for which they were trained - especially in the food and transport industries. And in 1989, 430,000 new jobs were found for young people.

Nevertheless, too many young Spaniards are on the dole and risk staying there for years - or disappearing into the submerged economy. There is no question that administration, management and unions are acutely aware of the problems and each in their own way, anxious to assuage it. How soon, and how effectively, is still in question.

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Telefónica  
Beyond 1992

## SPAIN 8

Far too many Spaniards live in poverty, reports Patrick Blum

## The view from the bottom of the tower

ON A clear day, from the top of the Torre Picasso, Madrid's newest, highest, brightest and most exclusive office tower, you can admire the picturesque landscape that leads to Segovia, Toledo and Guadalajara.

Few people will have the opportunity. The tower is reserved for a privileged few: financiers, stockbrokers, media, public relations and international auditing companies, and the plush offices of real estate and construction groups. They represent a cross-section of Spain's new wealthy entrepreneurial elite. The tower itself is part of a vast commercial and business centre with an indoor shopping arcade of smart boutiques, cafes and restaurants, one of which,

**Many of the jobless are too uneducated to obtain the limited help that is available**

the Cafe del Pintor, even offers a "Menu Especial Yups".

If the tenants of the Torre Picasso lowered their sights, they would find a less picturesque landscape of poor housing, squalor and poverty much nearer home. Madrid is mainland Spain's richest city, but it can also claim to have the highest concentration of people living on or below the poverty line.

According to a study published last year by Caritas, Spain's largest private charity, there were more than 151,000 families comprising about 700,000 people or almost 15 per cent of the Spanish capital's 4.7m population (including outlying districts) living in poverty. That figure, says Mr Manuel Fernandez, Caritas director in Madrid, should be seen as a conservative estimate based on taking Spanish - rather than European - average incomes as a base for calculations which were carried out according to European Community criteria by taking half the average income as the poverty line.

In Madrid's case at the time of the survey, that meant anyone with a monthly income of Pta 20,300 (\$112 at current exchange rates) or below.

Out of this number, about 31,000 families (160,000 people) were living in severe poverty with a per capita income of Pta 8,000 or less, with some 30,000 people suffering from malnutrition. At the moment, there are more than 20,000 people on all sorts of waiting lists, needing urgent help in Madrid," Mr Fernandez says.

The situation in Madrid is not unique. In a comprehensive national survey of rural and urban areas at the end of 1984, Caritas estimated that about 8m people could be described as living in poverty.

Barcelona is the proud capital of Catalonia, Spain's richest province after Madrid and the Balearic Islands which have the highest per capita income mainly from tourism.

Yet a recent study shows that about 15 per cent of Catalonia's families can be classified as poor. In some of the city's districts, the proportion reaches 32 per cent of families.

There are several causes for such poverty. In the big cities, in addition to migration from the land, unemployment is a major cause, foreign immigr-

**The influx of people from the countryside to towns has created serious black spots**

ation has contributed, so have alcoholism and, increasingly, drug abuse. On the land, there has been a gradual impoverishment of some rural areas.

Poor agriculture and low educational levels - too few schools and teachers - will trap people with no independent resources to draw upon.

Poverty and illiteracy are widespread problems among the poor. Gypsies, women and people in the 45-55 age groups are worst affected. Caritas estimates there are 80,000 people totally illiterate, and 800,000 partially illiterate - that is with only the basic ability to read and write simple texts - in Madrid alone.

This pattern of poverty with cultural deprivation creates a vicious circle. Many of the jobless and homeless are too uneducated and marginalised to obtain access to the limited assistance that is available. Many have never contributed to social security or pensions schemes - for many years there was no compulsory contribution to these schemes - and therefore are not entitled by law to standard benefits.

There is now a growing realisation from officials that much more has to be done to

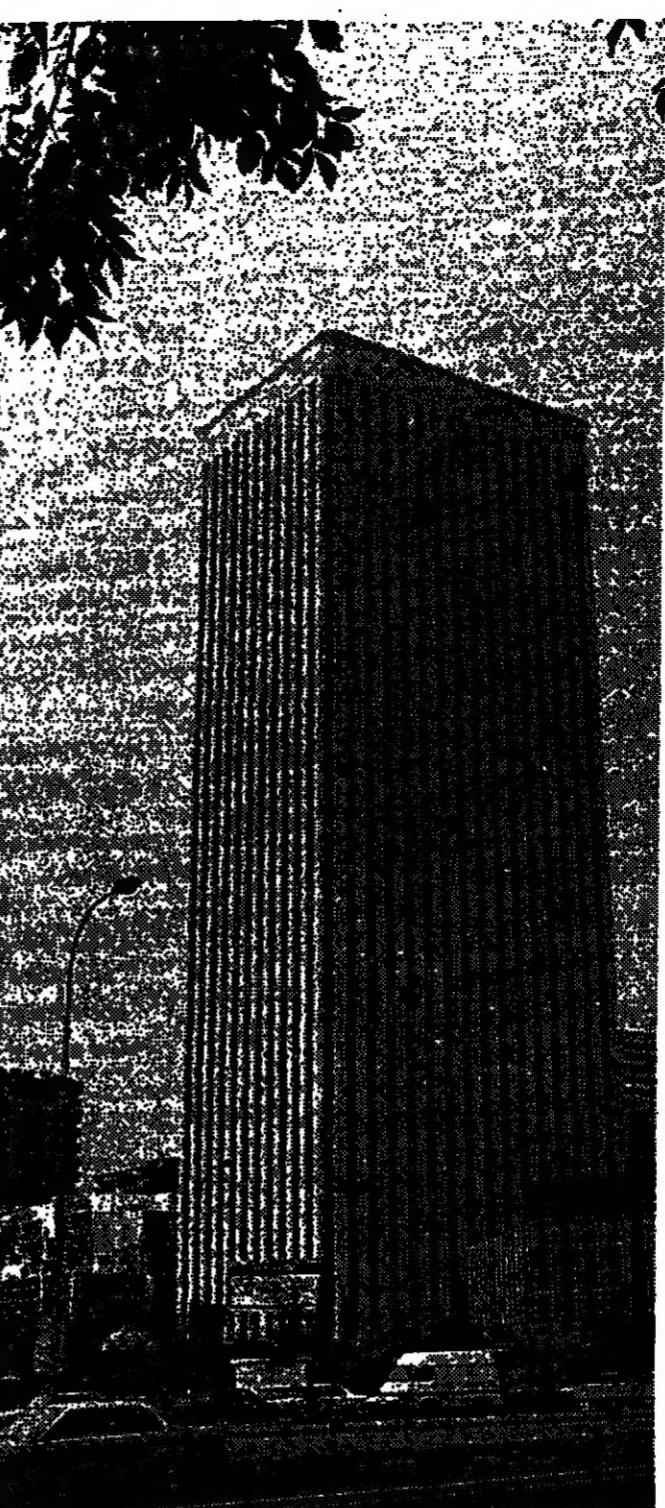
begin to alleviate the problem. Some autonomous regions, the Basque Country and Cantabria, have already introduced a minimum income of Pta 30,000 a month a family plus Pta 5,000 for each member of the family in need. The regional governments of Catalonia and Madrid are expected to launch similar schemes this year.

The Government is preparing a law to allow benefits to be paid to people who have never contributed to welfare schemes. A minimum monthly pension of around Pta 26,000 and child benefits of Pta 3,000 per child may be introduced. Ms Pilar Malla, Caritas general secretary in Barcelona, welcomes both moves. The minimum pension could help more than 40,000 people over the age of 65 in Catalonia, she says. Additional child benefits will also help in view of the large number of poor single-parent families.

"At the moment, a woman on her own with three or four children receives no help at all from the administration, apart from Pta 250 a month for each child, which is a joke," she says.

Providing money will help, but Mr Roldan believes a broader policy aimed at integrating or re-integrating people is necessary. Most of the very poor, and they include youngsters who have never worked, are unsuited for work because of their lack of skills. In 1985 Spain's unemployment was 23 per cent of the active population, since then the numbers have come down to 16 per cent, but some people have been unemployed so long that they have become unemployable before receiving rudimentary education and training.

"We don't think that it's sufficient just to give people money. They need to be integrated within society. What is necessary is to teach people how to help themselves by providing them with skills. A national programme to develop and train people is needed as well as primary assistance," he says. Caritas has such a programme but the task is enormous. More government help would be welcome. "We need to raise public consciousness and more solidarity," says Mr Roldan. It looks different from the top of the Torre Picasso.



**I**t's the tenants of Madrid's Torre Picasso (above) lower their sights; they can find a landscape of poverty near home

## FILMS AND VIDEO

## The minister's double-take

THE WAR is over between Spanish film-makers and Mr Jorge Semprun, the Minister of Culture.

But there will be little respite in the industry's battle for financial survival, and a competitive share of Europe's forthcoming audiovisual boom, even if it means coming to terms with a minister who became allergic to subsidising films that did not repay their investment and who threatened the industry with a decree that cut state backing.

That support represents a third of an average film's budget of Pta 300m (£220,000). This support is vital in a land where cinematographers, shunned by banks that think them too high a risk, must put up their own capital, scrounge from friends or family, and fight for TV rights so as to make up their cinematography budgets.

After years of despair from the industry last summer and calls for urgent negotiations from a hastily-formed Committee of Film Artists and Technicians, Mr Semprun held back his longed-for decree. Consultations under way could produce a plan covering not just films and ways of financing them (including wowing a reluctant private sector), a new film school and modern studios, but also the vexed question of unruly video markets and box office takings.

Video rights are sold for a modest sum, then everyone but the film-maker takes a profit: rental clubs, 750 neighbourhood video relay companies and video halls. No legislation covers this free-wheeling video world; now, with the cable/satellite/video boom in the offing, local film-makers want action.

Producers and directors also want official computerised checking of box office takings at least in the 500 main cinemas - ending endemic under-reporting of returns that, in the estimate of Mr Antonio Jimenez Rico, president of the two-year-old Academy of Motion Picture Arts and Sciences, could equal 40 per cent of returns.

Production companies are granted a subsidy of 15 per cent of a film's takings. If these are underwritten, says the industry, not only do exhibitors keep

more for themselves but producers lose another means of recouping their budgets.

Returns now come in nine or 10 months after exhibition: computerisation would speed up checking and reimbursement.

Cinema audiences are dwindling for all films, imported or Spanish, and 2,500 movie theatres have shut in a decade. Thus TV rights with TV co-financing are paramount nowadays, says Mr Jimenez Rico, 80 per cent of Spanish films have TV co-financing and guaranteed viewing time.

Not just national state or the new private TV channels supplement a producer's budget and reach a wider audience: local channels run by regional governments are a precious source of funds especially in Catalonia, the Basque Country and Andalucia, which partly fund what they consider worthwhile projects.

The latest to benefit from local backing is the 39-year-old Paco Perin, French-trained producer/director/scriptwriter of "Contra el Viento" (Against the Wind), a drama set against the background of Almeria's desert (former home to the "spaghetti westerns" of the 1960s) and abandoned mines.

Having lured Spain's intense young stars, Antonio Banderas and Emma Suarez, and a Spanish-speaking American Bruce McGuire, fresh from "Batman" for his lead, Perin is after national exposure, with a boost from his native Andalucia.

Like all Spain's cinematographers, Perin had to cut his budget to a minimum, use natural settings because constructed sets cost too much, and struggle to make a technically-refined product with miserly financial resources.

But like his peers, he is prepared to battle on - in a tidier environment, they hope, where they and their European counterparts can amass a stock of audiovisual products for the post-1992 boom. The alternative - if European film-making is not helped by better-regulated markets and some government support - is being swamped by US material and saying goodbye to an independent European production system.

Diana Smith

WHEN IT is convenient to do so - while trying, for example, to explain why so much of Spain is underdeveloped - Spaniards like to remind green foreigners that Madrid lies exactly half-way between Rabat and Paris.

This is supposed to cover a multitude of sins. Why, for instance, perfectly normal, even wealthy, Spaniards tolerate their neighbourhoods being smothered with litter and construction rubble. In Madrid, the enclave of Puerto de Hierro is about as expensive as one can get. Million-dollar houses, fenced in and often guarded, are common. The place is ringed with what looks like a garbage dump and no one seems to care.

Lesson one, we are told, is that Spaniards seem mainly to concern themselves only with what is theirs. Their house, their family.

Lesson two is that Spaniards, for the most part, are incredibly indulgent. They put up with amazing traffic congestion, an appalling telephone system, the astonishing bureaucracy of the courts and slovenly services with almost salutary ease. They are nice people.

Which, for the foreign businessman or woman arriving here to work for the first time, is the point. In Spain, people hate to disappoint and it can get newcomers into terrible trouble.

The problem is the culture of the *intimo amigo*, the very close friend.

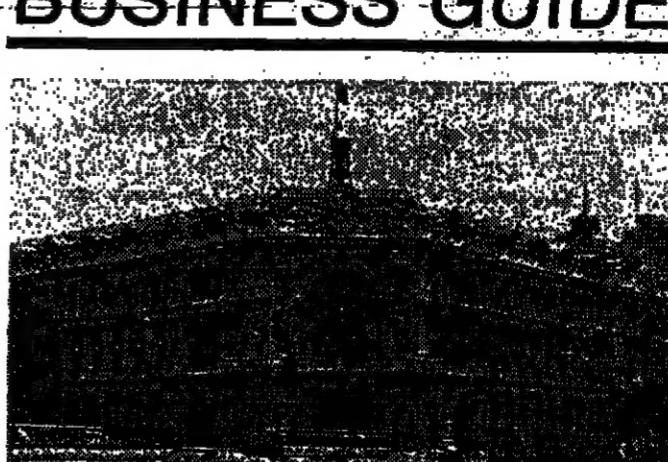
Typically, on arriving, a newcomer will be lunching with an established contact when the name of a potentially helpful stranger will crop up. You need, say, a work permit quickly. "Hey," the lunch partner will exclaim, "don't worry. He (the stranger) is a very close friend. I'll fix it."

Now, your contact may well know the person in question by sight but there is normally absolutely no reason to believe:

- that he has ever said more than hello to said stranger at a party;
- that the stranger would know him by sight and remember his name;
- that the stranger likes your friend.

You could wait a long time for the work permit. I stood with a fairly senior Spanish banker at a reception in Madrid recently and of the dozen or so people who swept up to clasp him in the vigorous Latin manner, he confessed he knew the names only of four. In business circles at least, people are under great pressure to know the influential. Few people would admit to not having an *intimo amigo* at, for instance, the Bank of Spain.

## BUSINESS GUIDE



**Few would admit to no "intimo amigo" at the Bank of Spain.**

This helps with the bureaucracy.

The other thing is to hire a young socialist. This person may do you no other good than to be able to tell you, accurately, whether someone's claim to be a good friend of another is true. The socialist should also find you a well-connected lawyer. Most international banks in Madrid employ such people and they are invaluable. An aristocratic background and a good university help.

The socialist will probably know the people whom you want to meet. They would have hunted with his or her father. The socialist may not be friends with the VIP in whom you are interested (and he would be confident enough to say so) but he or she would

Peter Bruce



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